The Social Dimension of the European Union: Implications for
Strategic International Human Resource Management in
Australian Multinational Enterprises

by

Helen De Cieri, B.A., M.A. (Melb.)

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Doctor of Philosophy
University of Tasmania
(June, 1996)
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Helen De Cieri

14. 6. 1996

Date
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Abstract

The development of the European Union (EU) has provided a forum for the attention of social scientists, political analysts, economists, and management researchers and practitioners over the past few decades. It has been argued that developments in the social dimension of the EU will hold significance for multinational enterprises (MNEs) (Blanpain & Engels, 1993; Brewster & Hegewisch, 1994). The growth of the European Union as a significant player in world markets has particular significance for Australian MNEs, as the EU is Australia's largest economic partner in terms of total transactions in goods, services and investment (Department of Foreign Affairs and Trade, 1994a). Hence, the implications of the social dimension of the EU for Australian MNEs provide the context of this thesis.

The two broad themes for this thesis are policy analysis and theory development. First, policy analysis involves investigation of the environment, including Australia and the EU Member States (at national level), and the EU (at supra-national level). MNEs form the central unit of analysis in this thesis. The research approach is aimed to permit contextualization of the findings, particularly with regard to strategic international human resource management (SIHRM) (Schuler, Dowling & De Cieri, 1993) in Australian MNEs operating in the EU.

Second, this thesis aims to operationalize an integrative approach to theoretical advancement in SIHRM. In order to analyse the development of SIHRM, a conceptual integrative framework developed by Schuler et al. (1993) is examined. The thesis charts the development of the field of SIHRM, recognizing that it is a relatively new area of enquiry and practical significance for MNEs.

Four major research questions were identified for investigation. In addition, 16 research propositions generated by Schuler et al. (1993) were selected for investigation in this thesis. The research methodology utilised in this thesis incorporates questionnaire surveys and organizational case studies to analyse
quantitative and qualitative data on SIHRM issues, functions, policies and practices of Australian MNEs operating in the EU. Data collection consists of three major components. First, a pilot study was conducted in a large MNE operating in the EU, in order to identify major SIHRM themes and issues in the EU context. Second, questionnaire surveys were conducted in December of 1992 and 1994 to investigate the role of SIHRM in Australian MNEs operating in the EU. Third, a major organizational case study was analysed.

The discussion and analysis of the thesis findings leads to conclusions with respect to the implications of the social dimension of the EU for SIHRM in Australian MNEs. This research holds a range of implications relevant to policy analysis and development, theory development, research methodology, and SIHRM practice. A revision of the integrative framework of SIHRM is presented.
Acknowledgments

There are many people to whom I owe sincere thanks for their assistance throughout the evolution of this thesis. First, I would like to express my gratitude to my doctoral supervisor, Professor Peter J. Dowling, for his guidance, encouragement and wise advice throughout this collaboration. Second, I wish to thank the many participants in this study for their generosity and co-operation in providing information and assistance. These people included expert informants, survey respondents, interviewees, and various other members of the network required to gather the information for this thesis. Third, I would like to thank my employers at the University of Melbourne and Monash University for their support during my studies. Fourth, many thanks are due to my parents, Mary and Vincent De Cieri, for encouraging me to study, even when it seemed to be never-ending. Fifth, I thank my sisters, Linda and Frances, and their families, for their assistance in many ways. Sixth, I am grateful to my friends, especially Lisa and Mark Evans, whose good humour and stimulating debate encouraged me to persevere. Finally and most of all, I thank my husband, Rowan Thomas, for his encouragement, love, patience and endurance.
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Glossary

APEC  Asian-Pacific Economic Cooperation
(Members in 1995: ASEAN members and USA, Canada, Mexico, Chile,
Australia, New Zealand, Japan, the Republic of Korea, the People's
Republic of China, Taiwan, Hong Kong and Papua New Guinea)

ASEAN  Association of South-East Asian Nations
(Members in 1995: Indonesia, the Philippines, Malaysia, Thailand,
Singapore, Brunei, and Vietnam)

ASEM  Asia-Europe Meeting (held in Bangkok, Thailand, March 1996)

Austrade  Australian Trade Commission

AWIRS  Australian Workplace Industrial Relations Survey

BADGE  Business Advisory Group on Europe (Australia)

BENELUX  Belgium-Netherlands-Luxembourg Economic Union

CAP  Common Agricultural Policy

CEEP  Centre Européen des Entreprises Publques
(European Centre of Public Enterprises)

CEN  Comité Européen de Normalisation
(European Committee for Standardisation)

CENELEC  Comité Européen de Normalisation Electronique
(European Committee for Electrotechnical Standardisation)

CER  Closer Economic Relations Agreement
Members (in 1996): Australia, New Zealand

CLE  Comité de Liaison des Employeurs
(Employers' Liaison Committee)

CMEA  Council for Mutual Economic Assistance

COM  Commission of the European Communities document

COREPER  Comité des Représentants Permanents de la CEE
(Committee of Permanent Representatives of the EEC)

DG  Directorate-General (of the European Commission)

EAEC  European Atomic Energy Community (see EURATOM)

EC  European Community (or Communities)

EEC  European Economic Community

ECOSOC  Economic and Social Committee of the EU
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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ECSC</td>
<td>European Coal and Steel Community</td>
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<tr>
<td>ECU (Ecu)</td>
<td>European Currency Unit</td>
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<td>EFTA</td>
<td>European Free Trade Association</td>
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<tr>
<td>EMS</td>
<td>European Monetary System</td>
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<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
</tr>
<tr>
<td>ESC</td>
<td>Economic and Social Committee</td>
</tr>
<tr>
<td>ESF</td>
<td>European Social Fund</td>
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<tr>
<td>ETUC</td>
<td>European Trade Union Confederation</td>
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<tr>
<td>EU</td>
<td>European Union (Members in 1996: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom).</td>
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<tr>
<td>EURATOM</td>
<td>European Atomic Energy Community (see EAEC)</td>
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<tr>
<td>EWC</td>
<td>European Works Council</td>
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<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade (succeeded by WTO)</td>
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<tr>
<td>HRM</td>
<td>Human Resource Management</td>
</tr>
<tr>
<td>IGC</td>
<td>Inter-Governmental Conference (of the EU)</td>
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<td>IPM</td>
<td>Institute of Personnel Management (United Kingdom)</td>
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<tr>
<td>MERCOSUR</td>
<td>Common Market of the Southern Cone (Members in 1995: Argentina, Brazil, Paraguay &amp; Uruguay)</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>MNE</td>
<td>Multinational Enterprise</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement (Members in 1995: USA, Canada, Mexico)</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OHS</td>
<td>Occupational Health and Safety</td>
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<td>QMV</td>
<td>Qualified Majority Voting</td>
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<tr>
<td>SEA</td>
<td>Single European Act</td>
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<tr>
<td>SEM</td>
<td>Single European Market (also SIM: Single Internal Market)</td>
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<td>SIHRM</td>
<td>Strategic International Human Resource Management</td>
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<tr>
<td>Social Charter</td>
<td>European Community Charter of Fundamental Social Rights for Workers</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNICE</td>
<td>Union of Industries in the European Community</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization (formerly GATT)</td>
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CHAPTER 1.
RATIONALE AND OUTLINE OF THE THESIS

Objectives of this Chapter

The objectives of this chapter are to provide an introduction to the topic of this study, including a rationale for and outline of the thesis.

Rationale for this Thesis

There are two broad themes for this thesis: policy analysis and theory development. First, policy analysis involves attention to the environment, including the dynamic contexts of Australia and the EU Member States (at national level), and the EU (at supra-national level). This approach is aimed to permit contextualization of the findings with regard to strategic international human resource management (SIHRM) (Schuler, Dowling & De Cieri, 1993) in Australian multinational enterprises (MNEs) operating in the EU. MNEs are the central unit of analysis in this thesis, and are viewed as embedded, in economic and social terms (Granovetter, 1992), in the environment.

The development of the European Union (EU) has provided a forum for the attention of social scientists, political analysts, economists, and management researchers and practitioners over the past few decades. With changes such as the economic growth in Germany and the significant changes in Eastern Europe, the growth of the EU as a significant player in world markets is undeniable.

For Australia, much of the current focus and trend is towards South-East Asia and the Asia-Pacific Region. The present research is by no means an effort in ignoring the
potential for development in that region; rather, it is an attempt to understand the implications of the strong relationships already existing between Australia and the EU members. Indeed, the EU is Australia's largest economic partner in terms of total transactions in goods, services and investment (Department of Foreign Affairs & Trade, 1994a).

The globalization of business increases the requirement for an understanding, both academic and practical, of ways in which MNEs may operate most effectively now and in the future (Sundaram & Black, 1992). A major aspect of this understanding is founded in the area of human resource management (HRM), and, in particular, international HRM (Dowling, 1986; Dowling, Schuler and Welch, 1994). Further, recent literature (Ferner, 1994; Milliman, Von Glinow & Nathan, 1991; Schuler et al., 1993) suggests that the emerging field of strategic international human resource management (SIHRM) is of significance to enterprises operating in the global marketplace.

Comprehensive research on Australian MNEs is very limited, although the calls for increased research are found amongst both academics and practitioners (e.g., Dowling & Welch, 1988; Welch, 1994). The need for both broadly-based and detailed analysis of the issues faced with respect to SIHRM has relevance both for enterprises seeking to operate in the EU and beyond this, to any Australian enterprises seeking to compete in global markets. Recognition of contextual dynamics and their inter-relationships with factors endogenous to an MNE, and particularly with SIHRM issues, functions, policies and practices, is concomitant with the need for integrative analysis and theory development.

The second broad theme for this thesis is theory development. This thesis aims to operationalize an integrative approach to theoretical advancement in SIHRM. In order to analyse the development of SIHRM, a conceptual integrative framework developed by Schuler et al. (1993) is examined in this thesis. This framework posits relationships between factors external and internal to the enterprise, as well as SIHRM issues, functions, policies and practices. Further, the framework allows for
integrative investigation of variables across macro and micro levels, through meso processes. The SIHRM issues, functions, policies and processes studied in this thesis provide excellent examples of meso processes. In order to investigate the elements of this framework, 4 research questions and 16 research propositions are investigated in this thesis.

Research Questions and Proposals

Given the issues raised in discussing the rationale for this thesis, four related research questions have been identified for investigation:

Q1. In what ways are environmental factors such as government actions, regional economic activity, and cultural diversity, influential for Australian MNEs operating in the EU?

Q2. What will be the implications of the EU social dimension for Australian MNEs operating in the EU?

Q3. What are seen as the key current and emerging issues related to SIHRM for Australian MNEs operating in the EU?

Q4. What empirical evidence is there of SIHRM in Australian MNEs operating in the EU?

In addition, 16 of the propositions generated by Schuler et al. (1993) were identified as applicable to the present research, and were selected for investigation in this thesis. These are shown in Table 1.1.

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As the thesis has research questions numbered 1 to 4, and the propositions selected for investigation in this thesis begin with P5(a), the original numbering of research propositions provided by Schuler et al. (1993) has been retained. Hence, the numbering of research propositions shown in this thesis matches the numbering used by Schuler et al. (1993). It should be noted that P9(b) and P9(c) are not included in this thesis investigation.
### Table 1.1.
Selected Propositions offered by Schuler, Dowling and De Cieri (1993)

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Description</th>
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<tr>
<td><strong>P5(a).</strong></td>
<td>The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to SIHRM issues in attempts to control and minimize risk and increase certainty and predictability.</td>
</tr>
<tr>
<td><strong>P5(b).</strong></td>
<td>The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
</tr>
<tr>
<td><strong>P6(a).</strong></td>
<td>The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
</tr>
<tr>
<td><strong>P6(b).</strong></td>
<td>The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
</tr>
<tr>
<td><strong>P6(c).</strong></td>
<td>The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
</tr>
<tr>
<td><strong>P7(a).</strong></td>
<td>MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
</tr>
<tr>
<td><strong>P7(b).</strong></td>
<td>MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
</tr>
<tr>
<td><strong>P7(c).</strong></td>
<td>MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.</td>
</tr>
<tr>
<td><strong>P7(d).</strong></td>
<td>MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
</tr>
<tr>
<td><strong>P8(a).</strong></td>
<td>An MNE's headquarter's international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations.</td>
</tr>
<tr>
<td><strong>P8(b).</strong></td>
<td>MNEs with a predominantly ethnocentric orientation will develop SIHRM policies and practices regarding staffing, appraising, compensation and training which favor parent country employees.</td>
</tr>
<tr>
<td><strong>P8(c).</strong></td>
<td>MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which are oriented towards host country employees.</td>
</tr>
</tbody>
</table>
Table 1.1. (continued)
Selected Propositions offered by Schuler, Dowling and De Cieri (1993).

P8(d). MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.

P9(a). The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented HR policies and practices.

P10(a). MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.

P10(b). MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.


Definitions and Terminology

With regard to the context of the European environment, the terminology used to refer to the institutions and documentation reflects the advice of the European Commission (European Union News, September/October 1995). Throughout this thesis, the term 'European Union', or 'EU' will be used to refer to the collection of nation states which are members of the European Economic Community. The European Economic Community is also widely referred to as the European Community. The terms 'European Community' and 'EU' continue to be used in some contexts, particularly in certain legal documents, such as official acts adopted on the basis of the Treaty establishing the European Community. It is worth noting that the role and responsibilities of the EU extend beyond the EC, as the EU also applies to new areas under the Treaty on European Union, also referred to as the Treaty of Maastricht (Agence Europe, 1992).

It is recognised that the term 'social policy' has many different meanings in different
international contexts. Therefore, the term is used throughout this thesis to refer to the full range of policies in the social sphere, or dimension. The social dimension encompasses policies and legislation regarding social and economic aspects of living and working conditions within the EU. This includes matters such as employment and working conditions, information and consultation rights, health and safety, working time arrangements, and training (Agence Europe, 1992).

This thesis aims to consider the implications of the EU social dimension for SIHRM in Australian MNEs operating in the EU market. SIHRM has been defined as:

*human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises* (Schuler et al., 1993: 422).

This definition is used throughout this thesis.

MNEs have been defined by Sundaram and Black (1992: 733) as:

*any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise.*

Further, Bartlett and Ghoshal (1992) have identified *transnational enterprises* as having three major characteristics: substantial direct investment in foreign countries (typically around 25% of sales); active management of those operations; and those operations are integral parts of the enterprise both in strategic and in operational terms. Thus, transnational enterprises may be viewed as the most complex or sophisticated form of multinational enterprise\(^2\).

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\(^2\) Throughout this thesis, the term 'multinational enterprise (MNE)' is used as a generic title for all organizations identifiable by the various criteria offered by Sundaram & Black (1992) and Bartlett and Ghoshal (1992).
A glossary of terms used in the thesis is provided for the reader's convenience at pages xiv-xv.

**Organization of this Thesis**

Chapter 1 introduces and provides the rationale for this thesis. Chapter 2 analyses the major environmental context for this study: the development of the EU. This chapter provides an overview of the historical background of the EU. In Chapter 3, attention is focused upon the development of the social dimension of the EU. In Chapter 4, connections existing between the EU and Australia are examined, with regard to the managerial implications for Australian MNEs. In Chapter 5, the development of the field of SIHRM is detailed. SIHRM is a relatively new area of enquiry (see, for example, Dowling, 1988; Dowling et al., 1994, Ferner, 1994). The HRM literature has provided extensive debate on the relationships between HRM and strategic issues (Dyer, 1986; Guest, 1987; Lengnick-Hall & Lengnick-Hall, 1988), although the extension of this to the international arena is embryonic (Dowling et al., 1994; Milliman et al., 1991; Schuler et al., 1993). The integrative framework of SIHRM and related propositions offered by Schuler et al. (1993) are presented in this chapter. Chapter 6 presents the research questions and propositions and details the research methodology utilised in this thesis. The present study uses questionnaire surveys conducted in the December of 1992 and 1994, and organizational case studies to present both quantitative and qualitative data on the HRM activities of Australian MNEs operating in the EU.

The results of the study are presented in Chapters 7, 8 and 9. Chapter 7 details the pilot study conducted in a large MNE operating in the EU. Chapter 8 provides the results from the questionnaire surveys conducted in 1992 and 1994. The present research replicates and extends Dowling's (1989) survey of international human resource practices in U.S. MNEs. The aim of the present research is to investigate the role of SIHRM in international operations, concentrating on enterprises (all from the same parent country, Australia) operating in the EU. Chapter 9 presents analysis of
the major case study, examining SIHRM strategies and practices and specific SIHRM issues faced by an Australian MNE with significant operations in the EU.

In Chapter 10, the research questions and propositions are used to structure the discussion and analysis of the research findings. Implications are drawn with regard to policy analysis, theory development, and research methodology. This chapter presents conclusions and recommendations for future research and practice in SIHRM.
CHAPTER 2.
THE HISTORICAL AND INSTITUTIONAL CONTEXT
OF THE EUROPEAN UNION

Objectives of this Chapter
The objectives of this chapter are to describe and analyse the historical and institutional context of the European Union (EU). An overview of the historical development of the EU and the major EU institutions is provided. Progress towards EU integration and the development of the Single European Market is discussed.

Introduction to the European Union
The current EU has evolved from three European Communities. First, the European Coal and Steel Community was established by the Treaty of Paris in 1951. Then, the European Atomic Energy Community (Euratom) and the European Economic Community (EEC), were established by the Treaties of Rome in 1957 (de la Rochère, 1992; Urwin, 1991).

The three Communities have the same membership. The founding Member States were France, Italy, the Federal Republic of Germany, Belgium, the Netherlands and Luxembourg (the latter three being known as the Benelux states). In 1965 it was agreed that the institutions of the three Communities be merged, a move which came into effect in 1967. In 1973, the United Kingdom, Ireland and Denmark joined; Greece joined in 1978, followed by Spain and Portugal in 1986. It became common to refer to them collectively as 'the European Community' (EC), despite the fact that they remain separate entities (George, 1991; Lodge, 1983; Nicholson & East, 1987;
Nicoll & Salmon, 1990). Progress toward economic and social integration of the European Community developed significantly with the introduction of the Single European Act, which was signed by the heads of state in 1985 and came into effect on July 1, 1987 (Lodge, 1989; Wistrich, 1989, 1994). On June 24, 1994, at Corfu, the Treaties and Final Acts were signed to enable the accession of Austria, Finland, Norway and Sweden to the new EU. In national referenda held during 1994, the people of Austria, Finland and Sweden endorsed their governments' decision to become Member States of the EU. The Norwegian referendum received a negative response (Goebel, 1995). Accordingly, on January 1, 1995, Austria, Finland and Sweden increased the membership of the EU to fifteen. In essence, there are four basic criteria for membership of the EU: 1) being a European state; 2) having a democratic form of government; 3) respecting fundamental human rights; and 4) having some form of a market economy structure (Schloh, 1995).

The 1995 enlargement, as with earlier enlargements, brings profound changes to the EU. Each new Member State is bound to exert some influence over the future direction of the EU, its policies and political nature (Goebel, 1995). As of January 1, 1995, the population of the EU grew by 6.2%, from 348.6 million to 371.5 million citizens. This is more than 40% larger than the population of the USA and more than 21 times Australia's population. Gross Domestic Production has increased by about 7 per cent (Goebel, 1995), and was at around ECU\(^3\) 5.837 billion in 1995, leading the U.S.A. by around 10% and Japan by 64%. The EU is the world's largest trading bloc, with 24 per cent of global imports, compared with 20 per cent for the U.S.A. and 9 per cent for Japan (Delors, 1995). The new members in 1995 have increased the number of EU official languages to twelve (Goebel, 1995; Schloh, 1995).\(^4\)

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1 ECU = AUD 1.61 = USD 1.25 = DM 1.86 = YEN 133


The twelve official languages are: Danish, Dutch, English, Finnish, French, German, Greek, Irish, Italian, Portuguese, Spanish and Swedish. Note, however, that publications including the *Official Journal of the European Union* are not published in Irish, because the Republic of Ireland has accepted that Irish need not be a working language, although it remains an official language of the EU (Goebel, 1995).

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\(^{3}\)  
\(^{4}\)
An intergovernmental conference (IGC) of the EU Member States, held at Maastricht, the Netherlands in December 1991 led to the signing of the Treaty on European Union. This Treaty has become widely known as the Treaty of Maastricht (Bercusson & Van Dijk, 1995). This Treaty entered into force on November 1, 1993, following ratification by the then twelve Member States (Goebel, 1995). As a direct result of this Treaty, the European Economic Community was officially renamed the European Community. The European Community continues to exist as the first and foremost foundation of the EU (Blanpain, 1992). While the term 'European Community' (EC) continues to be used, particularly in certain legal documents, and official acts, in general, the term 'European Union' (EU) is used. In fact, the role and responsibilities of the EU extend beyond the EC, as the EU also applies to new areas under the Treaty of Maastricht. The Treaty of Maastricht sets the objectives in Article 2, as follows:

The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 39, to promote throughout the Community an harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States (Agence Europe, 1992).

The agenda of European integration imply policies which reinforce human rights, establish equality of development opportunities, and ensure balanced distribution of costs and benefits related to economic and monetary union (Bhatt, 1989; Boyer, 1990; de Kok, 1990; Devinney & Hightower, 1991). Proposals following the Maastricht

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5 Strictly speaking, separate treaties on political union, and economic and monetary union, were negotiated on December 9-10, 1991, at Maastricht. The two texts were merged on February 7, 1992, again at Maastricht. The final Treaty was ratified on November 1, 1993.

6 This practice is observed throughout this thesis. In general, the term European Union, or EU, is used.
summit suggested that "cohesion should involve the whole range of economic, financial and social factors" (COM (92) 2000 final, cited in Holland, 1993: 3). Indeed, one of the most controversial issues throughout the evolution of the EU, and particularly at the Maastricht summit, was the social dimension. The social dimension encompasses policies and legislation regarding social and economic aspects of living and working conditions within the EU. This includes matters such as employment and working conditions, information and consultation rights, health and safety, working time arrangements, and training. The aim of the social dimension is to ensure that workers and citizens in the EU have a 'safety net' for protection against the significant economic changes which were anticipated to accompany European integration (European Foundation for the Improvement of Living and Working Conditions, 1995; Gill, 1994). The social dimension is formulated by EU institutions firstly through the development of legislation covering the EU labour market, and secondly by the development of a European structure for collective agreements and organizations, involving the labour market parties (or 'social partners') (Jensen, Madsen & Due, 1995).

Thus, the EU is founded on the European Communities, supplemented by policies and forms of co-operation contained in the Treaties of Rome and Maastricht (Blanpain, 1992; Murray, 1991; Nelson, Roberts & Veit, 1992). The importance of the more recent developments in the EU is significant, particularly for the social dimension. Indeed, Blanpain (1992: 1) has suggested that, with the Treaty of Maastricht a "new social European dimension came into being". In order to examine current and future developments for the purposes of this thesis, it is first necessary to outline the evolution of the EU and its social dimension.7

**European Coal and Steel Community**
The European Coal and Steel Community (ECSC), established in 1951, became known as the Schuman Plan, as it was made public by the then French Foreign

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7 The EU social dimension is discussed in more detail in Chapter 3.
Minister, Robert Schuman. It is widely held to be true, however, that the plan was actually developed within the French Economic Planning Commission (*Commissariat du Plan*), led by Jean Monnet. It was the task of the Planning Commission to guide the post-World War Two reconstruction and modernisation of the French economy. Monnet came to realise the economic inadequacies across Europe and saw the need for an economically united Western Europe. As George (1991: 2) describes it, "His aim seems to have been to build a genuine economic community which would adopt common economic policies and rational planning procedures". The European Coal and Steel Community may be viewed as a means by which the German steel industry could be controlled, by coordinating production with other European manufacturers (Delamaide, 1994). It has, however, been argued that the Federal Republic of Germany was enthusiastic because the European Coal and Steel Community offered political respectability and acceptance into the Western European states (George, 1991; Lodge, 1989; Urwin, 1991).

Coal and steel were intended to be starting points for economic integration. Areas beyond these were seen as too ambitious at the time. As coal and steel were central to industrial production at the time, it was seen as feasible that planning for these two areas could be most effective as part of a supra-national exercise in economic planning. Monnet envisaged that the High Authority of the European Coal and Steel Community would play a 'guiding' role in a system known as 'indicative planning' or 'dirigisme'. There were objections to the supranational *dirigisme*, mainly from industry in the Federal Republic of Germany, rather more objecting to the *dirigisme* than to the supranational form proposed. The Federal Republic of Germany and the Benelux states insisted on the establishment in the European Coal and Steel Community of an institution to represent the Member States: the Council of Ministers (now named the Council of the European Union, or EU Council). The High Authority, with Monnet as its first President, continued to function on a fairly

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8 It should be noted that the institutions under examination have evolved over years and names have changed accordingly. Throughout this thesis, the most recent terms or names will be used as much as possible, to enhance consistency for the reader without compromising accuracy.
independent basis. Within this institution, however, there were divisions along ideological grounds. In addition, complex decision making processes within the High Authority led to slow progress overall (George, 1991; Nicoll & Salmon, 1990).

The European Economic Community and Euratom

After leaving the High Authority, Monnet formed the Action Committee for the United States of Europe, an international pressure group including politicians, industrialists and trade unionists from across West Europe (George, 1991). The Committee began its work by focusing on a scheme for a European Atomic Energy Community. At the same time, the idea for a common market was developing with the Belgian and Dutch governments. These two proposals became linked in joint negotiations between the European Coal and Steel Community Member States; this linkage became important in ensuring their eventual acceptance. The Federal Republic of Germany favoured the idea of a common market, as they were already a dominant economy with a strong export orientation. The Federal Republic of Germany was less enthusiastic about the concept of a European Atomic Energy Community (Euratom), as they saw it as a means for France to gain a subsidy for their own nuclear power industry. The French government took the opposite view, being concerned about the effect of German imports on French goods, but keen to develop its nuclear energy program. Eventually, a deal between the two largest continental West European states became possible (George, 1991).

The opposition of the Germans and the Benelux states to dirigisme is evident in the Treaties of Rome (1957) which created Euratom and the European Economic Community (EEC). In particular, the EEC Treaty enshrines the principle of laissez-faire throughout most of its articles. The major exceptions are those which ensured French participation: Articles 38 to 47, regarding the creation of the Common Agricultural Policy, and special trading concessions for France's overseas colonies and dependencies. In addition, a Customs Union was established and provision made for the free movement of labour and capital, and the progressive approximation of the economic policies of the Member States (George, 1991; Nicoll & Salmon, 1990).
The Institutions of the European Union

The institutional arrangements of the EU were originally adopted into the EEC from the European Coal and Steel Community, although the relationship between the European Commission (the supranational executive) and the Council of the European Union was altered so that the Commission had no designated independent area of action (Lodge, 1989). The role of the European Commission is to make proposals to the Council of the European Union, for approval by the Council, before entry into EU law. A European Parliamentary Assembly was also established (later to become the European Parliament); initially, the members were indirectly elected and its role was mainly consultative. More recently, the role of the European Parliament has been expanded under the Treaty of Maastricht. A European Court of Justice was established to arbitrate on the interpretation of the Treaties. Various consultative committees were also established. Although there have been considerable modifications over time, these remain in essence the institutions of the EU today (Bercusson & Van Dijk, 1995; George, 1991; Lodge, 1983; Schwarze & Schermers, 1988).

EU policy emerges from a legislative process which involves the participation of the various EU institutions according to procedures established in the founding (EEC) Treaty of Rome. A feature of this Treaty is that it entails a process of negotiation between representatives of Member States, a system based broadly on consensus between the institutions and Member States. It is the task of the EU institutions to give practical effect to the commitments entered into by the Member States and to ensure that the rules and obligations of EU membership are observed (Hurwitz, 1987; Lodge, 1983; Murray, 1991; Noel, 1988; Taylor, 1983).

The European Council of Heads of State and Government

Since the first intergovernmental meeting (or 'summit') in 1969, in The Hague, meetings of the Heads of State and Government of the Member States, collectively
known as the European Council (of Heads of State), have been held on a regular basis (and twice each year since the mid-1980s). The work of the European Council has evolved to perform for the EC the function of a board of directors of a company; framework decisions on future developments are made, then delivered to the European Commission for development into proposals for the Council of the European Union (George, 1991; Nicoll & Salmon, 1990). As the highest political body in the EU, the task of the European Council is to provide the impetus and general political guidelines for the EU (Schloh, 1995). Decisions of the European Council must be ratified by Member States before taking effect.

The European Commission

The European Commission is the body responsible for framing EU legislation (Blanpain, 1992). The European Commission has one member from each of the smaller states and two from each of the larger (France, Germany, Italy, the United Kingdom, and Spain), to create a total of 20 members. The European Commission has three main functions: to initiate and propose EU legislation; to act as the EU executive body; and to bring legal actions (via the European Court of Justice) against a Member State that fails to fulfil its treaty obligations (Addison & Siebert, 1994). The current European Commission has a five year mandate running from 1995 to the year 2000.

Commissioners are appointed by their national governments for a four-year renewable term of office; they are sworn to abandon all national allegiances during their term of office. Once appointed, the members are independent of their national governments and are responsible only to the European Parliament (Dudley, 1989). The European Commission is divided into around 20 departments, called "directorates general" (DG). Each DG is headed by a Director-General whose function is to manage the directorate and the bring into action the requirements of the commissioner (Dudley, 1989; Lodge, 1983; Nicoll & Salmon, 1990). For example, in 1995, Mr Padraig Flynn is the Commissioner responsible for DGV, which includes the portfolios of: employment, industrial relations and social affairs; and justice, immigration and home
affairs (in sum, the social dimension). One commissioner acts as president of the European Commission for a four year term, although Jacques Delors was granted a second term as president (thus holding the presidency from 1985 to 1994). The presidency is passed to a different nationality with each change (George, 1991).

The European Commission has the role of initiating EC law, to propose action to the Council of the European Union and to ensure that what is decided is implemented. The European Commission is also the exponent of the EU's views, as distinct from national interests, when the Council meets (Lodge, 1989; Schwarze & Schermers, 1988). The main tasks of the European Commission staff are to advise commissioners, prepare documentation of proposals for the Council of the European Union, draft the formal legal documents once proposals have been agreed, and monitor their implementation in each of the Member States (George, 1991; Hurwitz, 1987; Lodge, 1989).

Generally, the legislative process of the EU begins with the European Commission. The European Commission consults widely with relevant interest groups and the European Parliament in the development of proposals for EU legislation. Proposals then are sent to the Council of the European Union for acceptance and approval as Community law (Siedentopf & Ziller, 1988).

**European Parliament**

The European Parliament (originally the European Parliamentary Assembly) has grown to 626 members in 1995, with the addition of 22 Swedes, 21 Austrians and 16 Finns. Since 1979 it has been a directly elected Parliament (Lodge, 1986a). There are no national sections, only EU-level political groups, and the European Parliament does not have the same legislative powers as a national parliament (George, 1991; Lodge, 1990a). Rather, the European Commission initiates and drafts proposals for legislation, and the Council of the European Union enacts most of the EU legislation. The main task of the Parliament is to monitor the work of the European Commission; the Parliament must be consulted on most European Commission proposals before the
Council of the European Union makes the final decision. The Parliament also has the power to re-allocate, increase, or reject EU budget expenditure, in agreement with the Council of the European Union (Hurwitz, 1987; Lodge, 1990a; Nicoll & Salmon, 1990). All draft legislation is subject to revision during the legislative process. This has led to some protracted debates and repeated revisions (Addison & Siebert, 1994). The powers of the European Parliament were extended by the Single European Act (1986) via a procedure of "co-operation" (Addison & Siebert, 1994). Until the Treaty of Maastricht was enforced in 1993, the European Parliament held powers only to either approve the Council of the European Union's position on a proposal or take no position at all.

The Treaty of Maastricht has provided several significant extensions to the role of the European Parliament in the decision making procedures of the EU (Glaesner, 1995). The powers of the European Parliament were further increased by the Treaty of Maastricht. Until the Treaty of Maastricht, the European Parliament had no power of veto, although through parliamentary procedures it could seek amendments or reject proposals (Lodge, 1990a; and Nicoll & Salmon, 1990). Now, for example, the European Parliament may, with a qualified majority vote, request the European Commission to develop a proposal. The Parliament has also been given "co-decision" powers, meaning that it has an effective right of veto for certain areas of legislation (Addison & Siebert, 1994).

**European Court of Justice**

The European Parliament has been assisted in its attempts to increase its powers by decisions made by the European Court of Justice. The Court of Justice consists of one judge from each Member State. Although not participating in the EU decision making process, the Court of Justice has been an integral part of European integration (Davies, 1995; Nicoll & Salmon, 1990). For example, the Court of Justice has (in a long series of rulings) established that EU law takes precedence over national law where the two come into conflict; this provides a more federal character to the EU (George, 1991). This is known as the doctrine of supremacy of EU law.
Council of the European Union

Since the ratification of the Maastricht Treaty, the former EC Council of Ministers is now called the Council of the European Union or EU Council. The Council of the European Union is the principal decision-making body and the one in which national interests are represented (Addison & Siebert, 1994). The Council has responsibility for discussion and adoption of EU legislation following proposals made by the European Commission.

The Council of the European Union is composed of ministers from each Member State; membership changes according to the meeting agenda. For example, if agriculture is on the agenda, then Ministers of Agriculture attend meetings (George, 1991). The EU is well known for its decision-making by qualified majority voting (also known as QMV). Underlying this is the fact that Member States with greater economic power and/or larger national populations have proportionally more votes in the Council of the European Union. For example, the United Kingdom, France, Italy and Germany have 10 votes each; Sweden has four votes and Luxembourg has 2 votes (Schloh, 1995). Decisions require a qualified majority to be carried (Nicoll & Salmon; Urwin, 1991). Under this system, one or more Member State may vote against a decision but they are nonetheless bound by the majority decision.

The EU policy areas for which qualified majority voting, rather than unanimity, is required were extended by the Treaty of Maastricht. Analysts have consistently viewed this as a move to facilitate European integration (Bercusson & Van Dijk, 1995; Blanpain & Engels, 1993; Lange, 1993; Schloh, 1995). With respect to areas of social policy, for example, it has been suggested that some Member States, realising that unanimous voting was required, and confident that the United Kingdom would object to proposals about the social dimension, would appear more willing to vote affirmatively, for progress, safe in the knowledge that unanimity would not be

For consistency, the most recent term, 'Council of the European Union' will be used throughout the thesis to refer to this institution.
achievable (Lange, 1993). Hence, Schloh (1995) has argued that a greater number of EU decisions should be made by qualified majority voting rather than unanimity, as this would mean that there must be at least two or three opposed Member States to prevent a decision being carried.

Member governments rotate as President of the Council of the European Union, in six-monthly terms (Addison & Siebert, 1994). The Committee of Permanent Representatives assists the Council of the European Union, co-ordinating its work and preparing the agenda. Up to the year 2000, the presidency of the Council of the European Union will be rotated through Italy (the current presidency), Ireland, Luxembourg, United Kingdom, Austria, Germany, Finland, Portugal and France (Smart, 1996).

**Committee of Permanent Representatives**
The question of supranationality and concern by Member States (especially France during the post-World War II period under De Gaulle) about the possible powers of the European Commission, led the Member States to develop the Committee of Permanent Representatives (COREPER), which officially consists of the ambassadors of each Member State, although it also meets at different levels of seniority with civil servants of Member States (Nicoll & Salmon, 1990). COREPER effectively works to reduce the workload of the Council of the European Union by itself settling matters which are not controversial (George, 1991). This also reduces the likelihood of powers being delegated to the European Commission.

**Management Committees**
First established in the agricultural sector and since extended to other areas of common policy, Management Committees consist of civil servants from the Member States. They are required to approve any actions taken by the European Commission in implementation of these common policies, which in effect facilitates retention of control at the national level (George, 1991). One example is the Economic and Social
Committee (ECOSOC: a non-elected tripartite body) which acts in an advisory
capacity to the Council. It comprises employers, trade unions and independent
representatives of the EU Member States. The task of this Committee is to discuss
proposals of the European Commission to ascertain possible ramifications, and to then
place these proposals before the ministers (Dudley, 1989; Nicoll & Salmon, 1990).

Decision Making Processes of European Union Institutions

The procedures for decision making on EU matters are, in practice, quite complex.
First, a proposal is developed by the responsible Director-General, in consultation
with the commissioner and cabinet. Second, the proposal for legislation is initiated
by the European Commission, and through a number of Commission discussions,
becomes a firm proposal for a regulation, directive, decision, or recommendation.
Once finalised in the Commission, the proposal is taken to the Council of the
European Union, which in turn seeks the opinion of Management Committees such
as the Economic and Social Committee before the Council of the European Union can
begin deliberations. The proposal is then taken to the European Parliament.

If the Council of the European Union adopted a common position on the proposal,
then it is likely the European Parliament will have taken a position within about three
months. Where the Parliament agrees to the proposal by an absolute majority the
proposal is adopted into legislation by the Council of the European Union. Where a
proposal is rejected or amended, it is returned to the European Commission for
review. It is then passed to the Council of the European Union, which may adopt the
Commission's proposal by qualified majority or seek to impose the amendments made
by the European Parliament if these have not been proposed by the Commission. For
the latter, unanimity is required within the Council of the European Union (Dudley,
1989; Nicoll & Salmon, 1990). As Parliament considers whether to reject, amend or
accept the proposal, the Commission will be called upon to justify the terms of the
proposal. The Commission then has one month to reconsider the proposal in the light
of Parliament's opinion. Once the Commission has taken the final decision, the

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proposal goes to the Council of the European Union, via detailed discussions with COREPER. In the Council of the European Union, the responsible commissioner must defend the proposal and attempt to persuade the Council of the European Union to accept it. This often involves a long process of negotiation. Throughout the entire process from initiation to action on a proposal, events are public and those affected may register their views, and lobby the Council of the European Union (Lodge, 1989; Nicoll & Salmon, 1990). Thus, as George (1991) describes, the institutional structure of the EU contains elements of both supranationalism and intergovernmentalism.

Guiding Principles for Future Developments in the European Union

Developments in the EU are governed by a number of basic principles or rules which guide the decision making processes. For example, all accessions of new members have been governed by the basic principle of "acquis communautaire", which is fundamental to the Treaty of Maastricht. This principle conveys the idea that:

\[\text{the institutional structure, scope, policies and rules of the Community (now Union) are to be treated as "given" ("acquis"), not to be called into question or substantially modified by new States at the time they enter} \ (Goebel, 1995: 1095).\]

The 'acquis communautaire' was contained in the Treaties of Paris and Rome, and amended by the Single European Act and the Treaty of Maastricht, with European legislation and jurisdiction by the European Court of Justice (Blanpain, 1992).

A second important principle for decision-making in the EU is the rule of subsidiarity. Subsidiarity means that action should not be taken at EU level when it could be done equally well or better at some other level (Blanpain, 1992). Indeed, in order to constitute the appropriate level, the EU must show that it can produce a better outcome than at other levels. The outcome is assessed in terms of scale (referring to action which transcends national borders) or effects of the proposed action. According to Article 3b of the EEC Treaty of Rome, the EU can only take action if and insofar as the objectives of the proposed action cannot be sufficiently
achieved by the Member States (Blanpain & Engels, 1993). Subsidiarity relates to the areas which are non-exclusive and where consequently both individual Member States and the EU are competent. For example, subsidiarity is an important consideration in the majority of labour law issues (Blanpain & Engels, 1993). With respect to management and labour issues, the question of subsidiarity relates firstly to the level at which decisions should be taken (at EU, national, regional, enterprise, or plant level); and secondly the matter of who should be making the decisions (the State, other public authorities, the social partners). Subsidiarity may also include unilateral decision making by management (otherwise known as managerial prerogative) (Blanpain & Engels, 1993). Determination of the appropriate level may be difficult in some situations, particularly considering the fundamental differences in approach to labour issues in the various Member States (Lange, 1993).

Progress Towards a Single European Market

Progress in the EU towards the development of a single internal market has, in many instances, been characterised by slowness, bureaucratisation and somewhat faltering steps forward (Barfield, 1991; George, 1991; Nicholson & East, 1987). Historically, the development of European-wide industries and financial institutions has been hindered by frontier formalities, differing product standards, restrictive government procurement policies, and limitations on the operations of financial institutions. Differing health standards, quality controls, environmental regulations and differences in indirect taxation have also had adverse effects (Nicoll & Salmon, 1990; Taverne, 1988).

During the European Commission presidencies of Jenkins (United Kingdom, President 1977-1981) and Thorn (Luxembourg, President 1981-1985), some progress was made towards redressing these problems. However, Delors (France, President 1985-1994) is credited with perhaps the most notable achievements (George, 1991; Lodge, 1989). In 1995, presidency of the European Commission passed to Jacques Santer (The Netherlands).
The developments outlined thus far, coupled with increasing concern that Western Europe was falling behind the Pacific Rim in terms of trade and economic growth, led the European Council, at the 1985 Brussels summit meeting, to ask the European Commission to draft a detailed timetable and proposals for the creation of a unified internal market. Lord Cockfield (the British commissioner given the position of European Commissioner for the Single Internal Market) produced a list of some 300 separate measures relating to physical, fiscal and technical barriers. These were not ranked by priority; Cockfield did, however, produce an ambitious timetable for their implementation by 1992. It is interesting to note that the measures address practical issues, avoiding the potential political implications of each (Lodge, 1989; Urwin, 1991). The resulting White Paper, entitled *Completing the Internal Market*, produced in June 1985, was adopted by the European Council at the 1985 Milan Summit (Wistrich, 1989).

The White Paper proposals included the removal of non-tariff, internal barriers by: abolition of frontier controls, freedom of establishment for enterprises and individuals; harmonisation of technical standards; opening of public procurement markets; deregulation of financial services; liberalisation of capital movements; an improved climate for industrial co-operation by way of European-wide statutes on company laws, taxation and industrial property; and harmonisation of indirect taxes. In more general terms, the proposals addressed the removal of three types of barriers: fiscal, physical, and technical. One requirement of such proposals was the approximation of taxes within the EU so as to create fair competition for trade in goods and services. It was argued that this would allow a quickening of the process of taking goods across borders, harmonising technical standards and certification procedures, so that spurious technicalities could not be used to keep foreign products out of domestic markets. A large number of the proposals applied to specific industries, such as the food industry, pharmaceutical industry, banking, insurance, and transportation (Buigues, Ilzkovits & Lebrun, 1990). Other proposals were not industry specific, but rather had potential to affect all companies. Notably, the largest sector of EU protectionism, agricultural policy, was not affected by these plans for goods and services (Commission of the European Communities, 1990e; Nicoll & Salmon, 1990; Wistrich, 1989). On the
other hand, tax proposals were central to the list of proposals.

Following the USA example, proposals included harmonisation of the large range of national VAT (value-added tax) rates by having only two permissible VAT brackets. The tax proposals created the greatest dissension amongst the Member States; tax harmonisation was postponed, and progress on many of the other proposals became very slow (Nicoll & Salmon, 1990). With respect to free movement of labour, referring to workers who are citizens of EU Member States, the White Paper identified potential barriers and proposed legislation to remove these barriers.

Lord Cockfield also commissioned Paolo Cecchini to report on the prospects for a united Europe. The Cecchini (1988) report argued that the costs of a disunited Europe in financial, social and world-competitive terms were too overwhelming to ignore the benefits of an integrated market. The report highlighted the potential challenges and opportunities beyond 1992 and emphasised the need for enterprise managers to develop strategies to remain competitive and to seize opportunities in the EU market (Cecchini, 1988; Dudley, 1989).

The Single European Act


The Single European Act was essentially an attempt to move the Member States along the path towards the original goal of a common market set out in the Treaty of Rome and intended to be in place by 1970. The Single European Act, in that sense, was not a revolutionary document (Urwin, 1991). In another sense, however, the Single
European Act could be seen to have revolutionary potential in its proposals for institutional reform; it suggested a shift in the existing balance of power towards supranationalism, towards the EU institutions (Urwin, 1991).

The Single European Act covered the areas of: the single market, European political co-operation, and institutional reform. This included, in addition to measures aimed at the completion of the single market, reference to new policy objectives, new forms of decision making and new processes of legislature, and extended the scope of the EU to cover foreign policy, defence and security matters (Delors, 1995). The Single European Act introduced changes to the institutional structure in order to revise official procedures and to strengthen the relative roles of the Council of the European Union, the European Commission, and the European Parliament.

At the core of the Single European Act was the commitment to a fully integrated internal market by December 31, 1992. The draft for the Single European Act described this as an area "in which persons, goods, and capital shall move freely under conditions identical to those obtaining within a member state" (cited by Urwin, 1991: 231). The European Commission was obliged to report in interim progress in 1988 and 1990, but failure to meet the deadline would not automatically incur any legal penalties. The idea of a single market met with little resistance (even from the hitherto reluctant British or Danes). The internal benefit was seen to be mainly, at least in the medium term, to go to the consumer, as a result of removal of barriers to free movement and thus greater specialisation of production at the enterprise level and the economies of scale. Externally, it was envisaged that the single market would strengthen the EU countries' effectiveness in competing in world markets, especially against the USA and Japan (Dischamps, 1993; Lodge, 1989; Murray, 1991; Nelson et al., 1992).

An important aspect of the Single European Act was the area of institutional reform. The summit agreed to an extension of qualified majority voting in the Council of the European Union, with the stipulation that unanimity be retained only for the accession of new applicants to the EU and for the enunciation of the general principles of new
policies. Once a policy had been adopted in principle, only a qualified majority would be required for implementation (Dudley, 1989; Urwin, 1991). As Spain and Portugal became Member States in 1986, the number of votes in the Council of the European Union increased to 7 and a qualified majority required 54 of the 76 votes. Abstention does not count towards a qualified majority. While this does mean that, in a wide range of areas, an alliance of the four largest powers would not be enough to carry a decision, and nor could any single country be able to exercise their veto rights to obstruct the enactment of policies desired by the others (Springer, 1989), there is still the possibility that a minority of states (even three or four) could, if they held common interests, delay developments (Urwin, 1991).

Of the 300 pieces of legislation agreed in the Single European Act, nearly 10 per cent had been abandoned or replaced within two years (Dudley, 1989). Each of those remaining were required to be translated into the national laws of each Member State (Dudley, 1989). This is a complex process, as seen in the example of harmonisation of technical specifications of products. To counteract technical barriers, which total some 100,000 different specifications, the European Commission proposed recognition of testing and certification procedures and the harmonisation of selected technical regulations (Barrett, 1988a, 1988b, 1988c). The European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC) were established to oversee the process of harmonisation (Nicoll & Salmon, 1990).

The Single European Act also incorporated past developments which had not explicitly been covered by the treaties; these included the advancement of co-operation in research and technology, the reduction of regional disparities, and referred much more explicitly to the improvement of the quality of life, environmental policy, improvement of living and working standards, and the raising of health standards. The Single European Act covers a broad spectrum of EU law, including such areas as: economic and social cohesion, environment, co-operation between public institutions; and political co-operation (Dudley, 1989; Murray, 1991). Thus, the Single European Act covered much more than the economic concerns of a single
market. While acknowledging considerations of convergence of economic and monetary policy, the Single European Act did not tackle the issue of Economic and Monetary Union (EMU). The Single European Act can be seen as a comprehensive attempt to clear the stagnation to which the Member States had become prone (Urwin, 1991).

The Maastricht Intergovernmental Conference and Treaty (1991)
A major recent development in EU integration has been the Treaty on European Union (or Treaty of Maastricht), developed through the Intergovernmental Conference (IGC) held in Maastricht in December 1991. The Treaty of Maastricht is ostensibly focused on political union. It includes features such as a commitment to European monetary union and creation of a common currency (Dischamps, 1993). The Treaty of Maastricht involves a number of reforms intended to deepen EU integration through expansion of the competencies of the EU institutions, thereby enhancing the ability of the Member States to make collective and binding decisions (Lange, 1993).

The Treaty of Maastricht has brought several steps in the development of the decision making procedures of the EU. For example, new structures for decision making in areas covered by Titles V and VI are anticipated to bring greater cooperation between Member States and improved coherence in the development of the EU (Glaesner, 1995). While the composition and strategies of the key decision makers in the EU remain largely unchanged by the Treaty of Maastricht, there has been significant alteration to processes and roles to be played (Blanpain, 1992). This is particularly evident with regard to the EU social dimension, as will be examined in more depth in the next Chapter.

The Turin IGC (1996) and the European Union towards the Year 2000
An IGC commenced in Turin, Italy, on March 29 1996, to review the developments since the Maastricht summit and to strengthen future directions of European
integration. Of particular concern are issues related to future enlargement of the EU. Malta and Cyprus have been promised accession discussions which will begin within six months of the conclusion of the IGC. Nine countries in central and eastern Europe (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovak) have agreements with the EU designed to lead to membership.

With potential for enlargement in mind, the *raison d’être* of the Turin IGC is the aim of streamlining EU decision making mechanisms (Smart, 1996). Issues for the 1996 IGC include: voting powers, particularly the voting weights granted to smaller countries; possible revision of the system of qualified majority voting; national representation in the European Commission; national rotation of the EU presidency; simplification of the European Parliament processes; and strengthening of the role of the European Court of Justice (*Economist*, March 30 1996a). The Turin IGC will also examine whether the jurisdiction of the EU should extend to policy-making on external relations, defence and immigration (Parkinson, 1996). For some Member States, particularly France and Germany, the Turin IGC appears to provide opportunities for significant progress toward political integration in the EU. Not all Member States, however, favour the development of a federation of Europe (Ellingsen, 1996; Parkinson, 1996).

Germany’s Chancellor, Dr Helmut Kohl and the French President, M. Jacques Chirac, have both highlighted the social dimension as a means to promote the integration of the EU. M. Chirac has proposed a ‘social model’ for Europe, emphasizing job creation, while Dr Kohl has proposed a ‘partnership’ to strengthen cohesion between EU Member States. It is likely that compromises will be reached, to allow the United Kingdom to opt out of closer ties, as with the Treaty of Maastricht (Ellingsen, 1996).

**Summary**

The development of the EU has been a complex and convoluted evolution over decades. The institutional bodies have been variously criticised for cumbersome
bureaucracy. The EU integration process arguably "consists of both centrifugal and centripetal dynamics which reduces the scope for effective decision making at the Community centre" (Teague, 1994: 227). There are, however, significant efforts in progress towards streamlining of these institutions and their processes. In the next chapter, developments in the EU social dimension are detailed.
CHAPTER 3.
THE SOCIAL DIMENSION OF THE EUROPEAN UNION

Objectives of this Chapter

In this chapter, attention is focused on the social dimension of the EU and the development of this dimension through social policy. The social dimension, particularly as it pertains to workers in MNEs operating in the EU, is investigated, to provide the environmental context for this thesis. While the importance of economic and technical factors in the development of the Single European Market is recognised, it is beyond the scope of the present research to investigate dimensions other than the social. It is this area which is most relevant to SIHRM in companies such as the Australian MNEs to be considered in this thesis.

Social Policy in the European Union

The history of social policy in the EU is "one of good intentions, high principles, and little action" (Lange, 1993: 7). Social policy in EU legislation and treaties has had a fairly restricted meaning in the context of the European Coal and Steel Community, Euratom and EEC Treaties (Collins, 1983; Lodge, 1986b, 1989, 1990b). EU social policy was initially tailored to precise and immediate concerns and focussed on employment, including re-deployment and training (Gold, 1993; Hofmann, 1990). There are two underlying components to EU social policy. The first relates to technical matters, such as factor mobility, labour mobility, industrial relations and technical aspects of social security necessary to foster labour mobility in a customs union. The second reflects the EU's social conscience and relates to social improvement and social harmonisation. EU social policy has to date not served as a
generalised scheme for the provision of social welfare, nor is it designed as a means of harmonising social security systems or levelling social security burdens between the Member States by a set deadline. The social dimension focuses on the interpretation and implementation of measures to realise the commitment to improving living and working conditions (Collins, 1983; European Foundation for the Improvement of Living and Working Conditions, 1995; Lodge, 1986b, 1989, 1990b).

Social policy in the EU involves concern about living and working conditions, and brings into play a number of factors (Barnard, 1992a; Dowdy, 1990; Kennis, 1991; Muhr, 1990). Social concerns are evident, particularly with regard to matters such as ensuring occupational health and safety standards. Economic factors are also relevant, as changes to matters such as minimum wages have implications for national competitiveness of industry. Undeniably, political factors are also at work, as, for example, free-market advocates have raised concerns about protectionism (Dunning & Robson, 1988; Young & Hamill, 1992).

Definition of the social dimension of the EU is quite broad and open to interpretation (Kuehl, 1990). The social dimension, or 'Social Europe' (Lodge, 1990b), refers to the development of a 'human face' for the EU, and measures put in place to facilitate social cohesion amongst the Member States. As noted in Chapter 2, the social dimension is formulated by EU institutions firstly through the development of legislation covering the EU labour market, and secondly by the development of a European structure for collective agreements and organizations, involving the labour market parties (or 'social partners') (Jensen, Madsen & Due, 1995).

In a positive light, George (1991) has acknowledged that there has always been a social dimension to the EU. The Treaty of Paris in 1951 contained provision for the High Authority of the European Coal and Steel Community to promote research into occupational health and safety in the coal and steel industries, and to provide grants for retraining of redundant workers in these industries. The EEC Treaty of Rome, in general a laissez-faire document, does contain mention of social areas: Articles 7 and 48 to 51 (freedom of movement of workers); Articles 52 to 58 (right of
establishment); Articles 117 to 122 (social field); Article 118a (improvement of the working environment); Article 118b (development of dialogue between employer and employee representatives at the European level); Article 119 (equal pay); Article 128 (common vocational training policy); Article 130a to 130e (economic and social cohesion); and Articles 100, 100a and 235 (approximation of legislation). Perhaps the most fundamental of these is Article 117, whereby the Member States agreed on the need to promote improved living and working conditions for workers, so as to facilitate harmonisation while maintaining improvement.

Viewed with circumspection, the Treaty of Rome can be seen to include little resembling a common or EU social policy. This perhaps reflects views held by Member States at the time of the Treaty negotiation phase:

*alarm that prospective members whose labour costs included relatively low social security contributions might have a competitive edge, and counter-alarm that they might have to harmonise their labour costs upwards to the detriment of their competitiveness* (Nicoll & Salmon, 1990: 191).

Indeed, references to the social dimension in the Treaty of Rome have been described as marginal (Bercusson, 1995), or almost an afterthought (Nicoll & Salmon, 1990). Roberts (1992) points out that the Articles of the Treaty of Rome setting out the areas of the social dimension of the EEC are narrow in scope. As Delors (1995) has stated, at first the EEC was part of an economic project to establish a common market, although it was necessary for it to develop as an economic and social area in order to achieve its objectives.

Grahl and Teague (1990) have suggested that there are five broad strands to the notion of a social dimension in the EU. First are initiatives to increase free movement of workers between EU Member States. Second is the promotion of policy agreement between national labour market institutions on issues including social security, and training and employment schemes. The third strand relates to the structural funds for training and employment projects (namely the Social Fund and Regional Fund). Fourth is the matter of whether the EU should adopt interventionist legislation and
policies to regulate the EU market. Fifth is the debate regarding the form, content, and extent of dialogue between representatives of management and labour - the "social partners" (Grahl & Teague, 1990; Teague, 1989a, 1989b; Teague & Grahl, 1990). Overall, the first three areas have not been contentious and related initiatives have gained wide support. The last two areas have however, created considerable controversy and thus the greater amount of attention (Grahl & Teague, 1990).

The basic objectives of EU policies, as well as of Member States, are to foster "security and stability within the framework of a free market economy and a federal and pluralistic democratic system" (Blanpain, 1992: 9-10). Hence, the social dimension is intended to provide an active social policy to contribute towards achieving a single labour market by removing the barriers that restrict the exercise of two basic freedoms: freedom of movement and the right of domicile within the EU (Ermisch, 1995; Espina, 1990; Fabricus, 1992). Such social policy should also boost other forms of occupational mobility and consolidate economic and social unity, thereby improving the position of the groups most affected by unemployment and strengthening the measures designed to overcome the remaining problems of exclusion and poverty (Thom, 1992; Todd & Neale, 1992). Finally, the social policy should have the support and co-operation of the social partners (Lodge, 1983, 1986b; Roberts, 1989). In recent years, the main thrust of EU social policy has continued to focus largely on work and employment issues and on the removal of impediments to labour mobility (Ermisch, 1995; Treu, 1992).

Since the Treaty of Rome, there has been a progressive movement towards the promotion of convergence among Member States, ensuring differences are accepted so they cannot be used to inhibit the free movement of capital, goods or labour. This direction has been emphasized, rather than attempts to achieve legislative uniformity (Brewster & Teague, 1989; Lodge, 1990a). The overall aim appears to be to achieve mutual recognition of minimum standards, with thresholds increased in some Member States in order to "avoid downward pressures on social security conditions, for instance" (Lodge, 1990b: 137). However, over the past four decades, the development of European norms regarding labour has been "spasmodic, episodic and
The goals of the EU social dimension have been and remain somewhat contradictory as they reflect the diversity of ideologies and interests of all Member States and the European Commission (Dankert & Kooyman, 1989; Lange, 1993). For example, the primary focus of the United Kingdom has been on measures of deregulation such as the removal of nontariff barriers. An alternative approach has been shown by some other Member States, notably Belgium, France and Germany who have promoted a regulatory interpretation, emphasising harmonisation through EU-level policies to avoid any downward levelling of standards across Member States (Lange, 1993; Story, 1990). In the most optimistic of perspectives, the social dimension may be viewed as a:

> *stimulus for a gradual upward or positive harmonisation of standards that will protect workers, enhance their reliability and productivity, improve firm competitiveness, and thereby expand and deepen a "European model" of high-quality, high-skills production* (Lange, 1993: 7).

Michon (1990) argues that the notion of a European social dimension does not mean a unification of all social conditions and benefits, or, for that matter, of all social systems. Even if this were desired, the very diversity of economic situations would preclude its realisation. The rates of productivity and therefore the per capita income of the populations which comprise the EU are diverse. Despite the many steps towards harmonisation already taken as part of European integration, there are still many differences in employment conditions between Member States. Thus, one aim of European integration is to mitigate the considerable regional differences in economic development. Another important aim is to establish a system of minimum social conditions which would safeguard the fundamental rights of workers.
The Social Charter of the Council of Europe

Since 1961, there has been a European Community instrument intended to provide a basis for social policy and the protection of economic and social rights. The Social Charter originated in a tripartite conference initiated by the International Labour Office and ILO standards provided the basis (Wiebringhaus, 1961). The Social Charter of the Council of Europe was introduced and came into effect in 1965. The first regulations on the freedom of movement for workers, for example, date from 1968 (Commission of the European Communities, 1990a). In the latter 1960s, general awareness of social concern was increasing. This provided new impetus for the EU social dimension. In 1968 the European Commission produced a report which emphasised the need for linkage between economic growth and social advancement. At the 1969 summit in The Hague, the then Federal Republic of Germany Chancellor Willy Brandt presented a paper in which he called for economic and social development to be linked. He identified social cohesion, through social policy, as a minimum objective (Brewster & Teague, 1989). In 1972, the Paris summit agreed to affirm the social dimension and called for definite steps to be taken in social policy, with corresponding resources provided. The European Commission's response was to produce a Social Action Programme in 1973, accepted by the Council of the European Union in 1974 for implementation in 1974-6 (George, 1991). This program set out three broad principles as guides for social policy: full and improved employment, improvement of living and working conditions, and greater participation of workers in the economic and social decisions of the EU (Commission of the European Communities, 1974). The European Commission developed several initiatives within this program. Initiatives spanned the areas of: workers' rights, occupational health and safety; company organization and participation; equal opportunities; and working time arrangements.

There is some evidence that in the 1970s, employees won new rights in the workplace and managerial prerogatives were curtailed. The 1970s were dominated by trade union agitation for greater worker participation, with a view to achieving a substantial impact on decision making at enterprise-level and in broader economic terms. The
1970s were also characterised by the elaboration of international codes, such as the International Labour Office Codes of Conduct for Multinational Enterprises, which may be seen as representative of attempts to restore the balance of power between MNEs and national unions (or local representatives of workers) (Blanpain, 1992). Overall, however, the 1974 Social Action Programme is regarded as a failure, as little real progress was realised from it (Story, 1990).

In the early 1980s rising unemployment and pervasive pessimism about the European economy hindered progress (Springer, 1989) such that by the mid-1980s, progress on social policy matters was experiencing serious difficulties. The reluctance of the United Kingdom to join other Member States on social policy led to EU legislative activity in the social dimension to be largely halted by the United Kingdom government's rejection of almost all proposals from the European Commission. Consequently, these proposals have failed to achieve the required unanimous approval in the Council of the European Union (Bercusson, 1995). Perhaps ironically, the United Kingdom government's anti-union approach to de-collectivisation of industrial relations has been identified as a major influence on the development of trade union activity and the attention to collective bargaining in EU social policy (Bercusson, 1993, 1995; Bridgford & Stirling, 1991; Fourny, 1992).

Overall, a rather piecemeal approach to social policy was evident in the 1970s and early 1980s (Davidson, 1989). Attention focused primarily on unemployment and workplace matters, including the issue of relations between employers and employees. Several attempts by the European Commission to establish interventionist social policies caused major divisions between some Member States and Community institutions as well as between the social partners. As Teague and Grahl (1989: 63) have suggested, "there appear to be strict limits to the strategy of "harmonising" employment practices across the Community".

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10 Examples of contentious directive proposals may be seen in the Fifth draft directive on the harmonisation of company law, the Seventh, known as the Vredeling directive and Ninth draft directives on worker consultation and rights to information. The Vredeling directive in particular evoked major contention. This is discussed in more detail later in this chapter.
The Single European Act

The social dimension was given a new impetus with the Single European Act in 1986 and the adoption of the Single European Market program. The European Commission took the approach that, in order to achieve trade union agreement to the single market program's intention to remove barriers which protected union members' jobs, a commitment to social policy was essential. The social dimension is now described by the European Commission as one of its 'flanking policies', alongside the single market program (Nicoll & Salmon, 1990).

In the Single European Act, specific reference is made to the social dimension, covering the same general areas as were cited in the Treaty of Rome (Brewster & Teague, 1989a; George, 1991). Articles 23 and 130 of the Single European Act pay attention to the promotion of economic and social cohesion, primarily through financial assistance directed by EU structural funds (Lodge, 1990b). EU social policy is set out in Articles 117-122 of the Single European Act. Article 104 states the commitment to maintaining a high level of employment, and Articles 48-66 outline the goals in respect of labour mobility, right of establishment and freedom to provide services.

Article 100 of the Treaty of Rome provided the main legal basis for EEC labour law and required unanimous agreement by the Council of the European Union before any directive in this area could be adopted. It refers to approximation of Member States' laws which have a bearing on the establishment or functioning of the Common Market (Addison & Siebert, 1992; Jacobs & Zeijen, 1993). Since this Treaty, a major objective of EU law has continued to be the harmonization of social legislation and policy (Northrup, Campbell & Slowinski, 1988). The amendment of the Treaty of Rome by the Single European Act introduced qualified majority voting to several additional areas. At the behest of the United Kingdom government, however, this excluded provisions 'relating to the rights and interests of employed persons', (at Article 100a of the Single European Act). Some amendments to the requirement of unanimity were made in Article 118A of the Single European Act, which allowed for
qualified majority voting in the case of proposed directives in the area of the working environment, regarding the health and safety of workers (Bercusson & Van Dijk, 1995).

By the end of the 1980s the European Commission had set the agenda for the 1990s, having identified some eighty individual measures in various social policy fields (Lodge, 1990b). The European Commission established a working party to examine the social dimension of the internal market. The working party argued that there was a need for regulation to facilitate the establishment of a European industrial relations framework. Attention was focused on the four areas of the EU’s social dimension seen as necessary: free movement of persons; economic and social cohesion; unemployment; and the social dialogue. A package of proposals was put forward, with regard to: health and safety, worker participation, training, job mobility and certain guaranteed employment rights including the right to lifelong training (Lodge, 1990b). According to Lodge (1989: 316), however, the impact of the working party and the various structural fund programs:

\[\textit{cannot be expected to be dramatic given wide discrepancies between} \]
\[\textit{the member states, limited financial resources and the member} \]
\[\textit{governments' unwillingness to tolerate extensive EC intervention.} \]

**European Community Charter of the Fundamental Social Rights of Workers**

The European Commission perceived a need to monitor and act in order to advance and protect employment, social security, health and safety standards. This appeared to entail some broadening of areas of coverage for the European Commission. This widening of interests reflected concern that continuation with a very narrow interpretation of ‘Social Europe’ that focused only on those issues central to ensuring labour mobility, without integration of the wider panoply of ‘human issues’ epitomised by the phrase ‘a People’s Europe’ would not impress the public (Lodge, 1989, 1990b). It was argued by the European Commission that tangible evidence of benefits of belonging to the EU needed to be shown in order to encourage the support of
European people, to achieve support for the social dimension of the Single European Market.

The European Community Charter of the Fundamental Social Rights of Workers (hereafter referred to as the 'Social Charter') is the product of an undertaking made by Delors, as President of the European Commission, to the European Trade Union Confederation, in Stockholm, May 1988. The Economic and Social Committee (ECOSOC) was requested, on November 9, 1988, by Delors and Manuel Marin, then Commissioner for Social Affairs, to produce proposals for a Community Charter of Basic Social Rights. On 22 February 1989 the ESC adopted an Opinion on 'Basic Community Social Rights' (Economic and Social Consultative Assembly Bulletin, 1989). Lobbying by the European Trade Union Confederation was instrumental in this development.

As noted in the introduction to the Social Charter, the document is based on the Social Charter of the Council of Europe and the Treaty of Rome, as amended by the Single European Act. The legal basis for further action related to the Social Charter is derived from the EEC Treaty of Rome. The Social Charter was also influenced by other protocols including the Conventions of the International Labour Office. The fundamental aim of the Social Charter was to form a basis for the social dimension of the EU in the spirit of the Treaty of Rome and the Single European Act (Addison & Siebert, 1994; Brewster & Teague, 1989; Teague & Grahl, 1992). The Social Charter sets out the broad principles underlying EU labour law, and more generally, the place of work in EU society (George, 1991; Hughes, 1991; Lodge, 1989; Spyropoulos, 1990).

Delors was a vigorous leader who utilised his powers to act as a leading spokesman for the Single European Market. Delors' personal initiatives beyond the Single European Act were focused on three major areas: European monetary union, budgetary matters, and the social dimension (Urwin, 1991). Delors became the

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11 The Community Charter of the Fundamental Social Rights of Workers is provided at Appendix 1.1.
principal advocate for those who wanted maximum integration. Inevitably, he came into conflict with those who supported the idea of an economic single market but wanted beyond that only co-operation. The major advocate of the latter group was the former British Prime Minister Margaret Thatcher (Lodge, 1989). Disagreements over budgetary matters were largely overcome at the June 1987 Brussels summit, although Thatcher and Delors argued over monetary policy. Mrs Thatcher's opposition to the Social Charter was not so easily overcome (Urwin, 1991). In a major speech in Bruges, Belgium, Thatcher (1988) emphasized the commitment of the United Kingdom to the European Community, but criticised centralisation saying that the frontiers of the United Kingdom had not been removed to allow a European super-state to exercise a new dominance from Brussels. Thatcher (1988) argued that the Social Charter would lead to increased labour costs, create unemployment and threaten foreign investment through increased corporate tax rates (Story, 1990).

Delors advocated the Social Charter as a program for a minimum set of workers' and citizens' rights; Thatcher labelled these rights as 'Marxist'. Delors believed the single market should benefit workers as well as the business community and consumers. The Social Charter was really little more than a set of principles. The Social Charter aimed to codify in general terms that which the European Community had already begun work upon in the social sector. The Social Charter referred to living and working conditions, freedom of movement, training opportunities, sex equality, and health and safety. In each of these areas, and aligned with moves towards harmonisation, the Social Charter was aimed towards the establishment of minimum standards for working conditions throughout the EU. Much of the Social Charter appeared anodyne. What is more, the Social Charter did not seek general European Commission intervention; rather, EU action where the necessary goals could more easily be achieved at the supranational rather than national level.

The draft Social Charter underwent a number of revisions, involving a prolonged process of consultation with national governments, trade unions, and employers. It was presented by the European Commission in September 14, 1988, then revised and presented again in April 1989 (Story, 1990). The Social Charter was discussed at a
Social Affairs meeting of the Council of the European Union in June 1989 and the Madrid summit in the same month. It was welcomed by 11 states but rejected by the United Kingdom. Particularly objectionable for the United Kingdom government was the proposal for worker representation on the boards of industrial companies (Urwin, 1991). A revised version of the Social Charter appeared on September 27, 1989. The draft was subsequently modified, first by the European Commission, then by the French presidency of the Council of the European Union. A much diluted version of the original draft was brought for European Council approval at the Strasbourg summit in December 1989. The objections of the United Kingdom were in turn objected to by the other 11 Member States; it was argued that, in accepting the Single European Act, the United Kingdom had also accepted a commitment to social justice, and that Social Charter was merely an essential equivalent of the package of commercial reforms in progress at the time. The European Parliament threatened to obstruct measures for market freedom to register a protest at the dilution of the Social Charter. The modifications were not, however, sufficient for the British to agree to the Social Charter (George, 1991). The European Council (or, 11 Member States, excluding the United Kingdom) adopted the Social Charter at Strasbourg on 8/9 December 1989. Belgium, the Netherlands, Italy, Luxembourg and Germany accepted the draft Social Charter with reluctance; the contents fell far short of their hopes.

This division has been characterised, at least in the popular media, as the United Kingdom 'versus' the other eleven states. It would be more accurate to say, however, that some of the others may have had doubts or concerns, but were perhaps content to shelter behind the United Kingdom's objections, rather than take up the argument themselves (Lange, 1993). This would have been particularly a possibility in states where the electorate was in favour of European integration. This tendency was perhaps at its strongest where social policy was concerned. Being seen to reject measures which would improve the living and working conditions of some of the electorate may be a risk many governments would prefer to avoid (George, 1991; Lange, 1993; Nicoll & Salmon, 1990). It should be noted that the United Kingdom has not rejected all proposed measures for the social dimension of integration. For
example, occupational health and safety was not questioned as an important matter for harmonisation. With regard to several other areas, however, the British raised objections for several different reasons. To some matters, the objections related to intervention by public authorities; on other matters they objected to granting power to the EU rather than reserving it in the domain of national government (George, 1991; Vandamme, 1994). It is interesting to note that Addison and Siebert (1994) suggest that institutional and ideological uniformity has grown among the Member States excluding the United Kingdom. Therefore, greater action with respect to the social dimension may be a feasible expectation where it is possible to make progress without involving the United Kingdom.

The social rights incorporated in the Social Charter were guaranteed and implemented, in some cases, at the level of the Member States or at EU level, depending on the field of jurisdiction (commonly referred to in EU matters as 'competence'). Delors emphasised that "it cannot be put into practice without the active participation of the two sides of industry" (Commission of the European Communities, 1990b: 3). Indeed, the Social Charter had only political consequences and no legally binding effect (Blanpain & Engels, 1993; Vandamme, 1994). Implementation of the Social Charter is directed as "the responsibility of the Member States in accordance with national practices, notably through legislative measures or collective agreements" (Commission of the European Communities, 1990a: 20).

The Social Charter was a formal declaration establishing a broad framework for providing the Single European Market with a social dimension via the introduction of directives. Directives set objectives and criteria but leave the Member States discretion as to the way they are incorporated into national legislation within an agreed time-limit; the majority of EU law is in this form (Blanpain, 1992; Blanpain & Engels, 1993). Depending on circumstances, social rights will be implemented by Member States, by regional or local authorities or by the social partners, together with the EU. The Social Charter has been criticised as a cosmetic exercise with little real impact (Banham, 1991; Ermisch, 1991; Lynn, 1992). In contrast, the Social Charter has also received praise as a statement of fundamental values with which any potential
Member State would be expected to comply (Lodge, 1990b).

The European Commission adopted a broad definition of Article 118a and has used it as the basis for a number of directives included in the Social Charter Action Programme. These include directives concerned with working time and maternity rights. One outcome of this approach is that these directives require qualified majority voting (not unanimity) in the Council of the European Union to be adopted. This interpretation of the Single European Act has been criticised by the United Kingdom government, but appears to be accepted by most other Member States (Hall, 1992).

The fundamental social rights of workers are detailed in the Charter under 12 headings, containing a further 26 points (Blanpain & Engels, 1993). The headings are shown in Table 3.1 below.

<table>
<thead>
<tr>
<th>Table 3.1 Twelve Areas of Fundamental Social Rights of Workers</th>
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<tbody>
<tr>
<td>• the right to freedom of movement;</td>
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<tr>
<td>• employment and remuneration;</td>
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<tr>
<td>• the improvement of living and working conditions;</td>
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<tr>
<td>• the right to social protection;</td>
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<tr>
<td>• the right to freedom of association and collective bargaining;</td>
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<tr>
<td>• the right to vocational training;</td>
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<tr>
<td>• the right of men and women to equal treatment;</td>
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<tr>
<td>• the right of workers to information, consultation and participation;</td>
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<tr>
<td>• the right to health protection and safety at the workplace;</td>
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<tr>
<td>• the protection of children and adolescents;</td>
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<td>• the protection of elderly persons; and</td>
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<td>• the protection of disabled persons.</td>
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</tbody>
</table>


The Social Action Programme

The Social Charter was a major aspect of the Social Action Programme which consisted of a review of practical measures the European Commission considered to be necessary to give effect to the Social Charter's most important principles. These
included a number of measures on employment policy and combating unemployment (Official Journal of the European Communities, 1991a, 1991b).

The Social Action Programme produced by the European Commission in November 1989 set out amendments to existing directives and measures on social and labour legislation (Commission of the European Communities, 1989). The Social Action Programme was approved by all twelve Member States. It set out guidelines for 47 specific proposals for the implementation of the 'fundamental social rights' identified in the Social Charter (Commission of the European Communities, 1990a; Lodge, 1990b). The majority (23) of these 47 proposals were binding on Member States; there is a plethora of nonbinding instruments based in the Social Charter (Addison & Siebert, 1994). By December 1992, 20 directives across seven of the Social Charter's area headings had been adopted (17 were originally proposed), and eight had been enacted into European law or were close to achieving that status.12

Amongst the major areas of the Social Charter, two have been particularly controversial: workers' participation and consultation rights on investment and other decisions which affect the company's future; and promotion of the 'social dialogue' between management, trade unions, and public authorities at the EU level (Blanpain & Engels, 1993; Carley, 1993; Cresssey, 1993). Further, issues such as European works councils, raised in the Social Action Programme associated with the Social Charter, have raised substantial discussion (Clark & Hall, 1992; Gold & Hall, 1992; Roberts, 1993).13

There has been considerable controversy over whether an instrument such as the Social Charter should exist, and whether it should be legislative or purely declatory (Nicoll & Salmon, 1990; Silvia, 1991). Justifications for European Commission

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12 See, for example, Davies (1995), The International Journal of Comparative Labour Law and Industrial Relations (1992) and Maes (1990) for detail of legislation and European Court of Justice cases relevant to the social dimension.

13 Such issues are discussed in more detail later in this chapter.
action with regard to the social dimension have been based around the intention of allowing the EU to present a 'human face', and legitimised on the grounds of 'social justice' and 'equal treatment' for EU citizens (Lodge, 1989). On the other hand, those with reservations regarding the validity or justification of intervention in matters such as support of workers' rights view it as 'social engineering' (Addison & Siebert, 1991; Nicoll & Salmon, 1990). These extremes represent two quite different approaches to achieving social change: should there be mandates from above, or should market forces be allowed to determine the future?

Overall, the social dimension of the Single European Market is ambitious and progress is difficult to assess (Baird, 1990; Michon, 1990). The Social Charter and Social Action Programme represented some drive in the EU towards more legislation on terms and conditions of employment. Although the Social Charter itself is non-binding, it forms the basis of a number of directives (and proposed directives) which established a framework of minimum rights and principles to be implemented by Member States (Incomes Data Services, 1991). The Social Charter specified that the European Commission would establish, in the last three months of each year, a report on the progress of the application of the Social Charter by the Member States and by the EU. By the early 1990s, it was generally conceded that the approach to social policy through the Social Charter of 1989 and the Social Action Programme had not been successful. Further attention to the development of the social dimension was inevitable (Blanpain, 1992).

Addison and Siebert (1992) have provided a review and critique of the more important policy instruments, and show that the European Commission's mandatory and often ambitious 'minimum standards' are often difficult to justify in efficiency terms. Further, the imposition of uniformity on EU states which already have diverse national policies and practices may hinder competition between social systems. Oppositional measures taken by firms in reaction to the imposition of arbitrary standards may frustrate the redistributive aims of the Single European Market.
The Treaty of Maastricht

With respect to the social dimension, the Treaty of Maastricht has a separate Social Policy Protocol and Agreement (These are provided at Appendix 1.2). The Treaty of Maastricht provides an expanded coverage of goals and policies for the EU (Bercusson, 1995; Weiss, 1992). It does not replace the existing provisions of the Treaty of Rome, as amended by the Single European Act, nor extends EU competence into new areas of social law outside of education and training. The social provisions of the Treaty of Rome and the Single European Act remain in force for all twelve Member States, and will continue to do so. Hence, the European Commission may seek to implement its social dimension proposals using Articles 100 or 118 of the Single European Act.

In the period preceding the Treaty of Maastricht, the social partners were actively engaged in discussions related to the social policy law-making (Addison & Siebert, 1994). The current social partners are, on the employer side, the private sector Union of Industrial and Employers' Confederations of Europe (UNICE), and the public sector Centre Européen des Entreprises Publique (CEEP), and on the employee side, the European Trade Union Confederation (ETUC). These parties developed an Agreement on October 31 1991 which "proposed to give the social partners the opportunity to fundamentally influence the development of the European Community's social legislation" (Bercusson & Van Dijk, 1995: 4). This Agreement formed the foundation of a Social Policy Protocol and Agreement appended to the Treaty of Maastricht. 14

The Social Policy Protocol was signed by all (then twelve) Member States. This authorized eleven Members (excluding the United Kingdom) to have recourse to the institutions, procedures and mechanisms of the Treaty of Maastricht for the purposes of formulating and implementing social policy (Addison & Siebert, 1994; Blanpain, 1992; Weiss, 1992). Thus, these eleven Member States indicated that they wished to

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14 The Agreement on Social Policy is also referred by some authors as the Social Chapter.
continue along the path established by the 1989 Social Charter. The United Kingdom opted out of this progress. Thus, where the United Kingdom expresses opposition to a proposal, the other Member States may proceed, following the Agreement (Towers, 1992). It seems likely that the self-exclusion of the United Kingdom will facilitate the ultimate enactment of the Social Charter and Action Programme into European law (Addison & Siebert, 1992, 1994; Towers, 1992).

The Agreement extends the competence (or 'jurisdiction') of the eleven signatories, by including matters such as the identification of competences which require unanimous voting by the Council of the European Union, and involvement of the social partners in social policy formulation (Bercusson & Van Dijk, 1995). Also, there is increased provision for qualified majority voting and a strengthened legal basis for collective agreements at EU level (Blanpain, 1992). Mechanisms were introduced to ensure such agreements have binding effect (in Article 4 of the Agreement, expanding on Article 118B of the Treaty of Rome). The Agreement provides for qualified majority voting with respect to five categories of social policy: improvements in the work environment to protect workers' health and safety; working conditions; information and consultation rights of workers; gender equality; and the integration of persons excluded from the labour market (Addison & Siebert, 1994). A further five categories identified in the Agreement require unanimous voting (excluding the United Kingdom). These include: employee representation and co-determination, social security, and dismissals protection. Several categories are excluded from the competence of the Agreement. These are shown in Table 3.2.

Social policy presented noticeable challenge for the development of the Treaty of Maastricht. Indeed, disputes over social policy threatened to prevent the signing of the Treaty. The difficulty emerged from the requirement of the Treaty of Rome that the Council of the European Union act unanimously before any proposals on social policy could be approved, although some amendments to this requirement had been made in Article 118A of the Single European Act, which allowed for qualified majority voting with regard to health and safety.
Table 3.2. Summary of the Maastricht Social Policy Protocol and Agreement

<table>
<thead>
<tr>
<th>Subject to qualified majority vote of the Council of the European Union, excluding the United Kingdom:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Health and safety of workers</td>
</tr>
<tr>
<td>• Working conditions</td>
</tr>
<tr>
<td>• Information/consultation</td>
</tr>
<tr>
<td>• Equal labour market treatment for men and women</td>
</tr>
<tr>
<td>• Integration of persons excluded from the labour market</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subject to unanimous vote of the Council of the European Union, excluding the United Kingdom:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Social security/social protection of workers</td>
</tr>
<tr>
<td>• Protection of workers after termination</td>
</tr>
<tr>
<td>• Representation/codetermination</td>
</tr>
<tr>
<td>• Employment conditions of third-country nationals</td>
</tr>
<tr>
<td>• Subsidies for job creation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Excluded from Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Wages</td>
</tr>
<tr>
<td>• Right of association</td>
</tr>
<tr>
<td>• Right to strike</td>
</tr>
<tr>
<td>• Right to lockout</td>
</tr>
</tbody>
</table>


The Competence, or Jurisdiction, of the Maastricht Agreement

The Treaty of Maastricht requires decisions regarding employee rights and interests to be made on a unanimous basis. Thus, most labour law has been kept at a national level (Fitzpatrick, 1992; Jacobs & Zeijen, 1993). Under the Social Policy Protocol and Agreement, however, and pursuant to Articles 1 and 2 of the Agreement, additional areas of labour law are now also subject to European-level competence (or 'jurisdiction').

Article 1 of the Agreement extends the scope of EU action in the social arena, although expressly showing that this competence is shared with Member States. The objectives of the EU (excluding the United Kingdom) as they now stand are shown in Table 3.3. Thus, it could be argued that only two restrictions apply to the social dimension: national diversity and the need to maintain competitiveness (Blanpain, 1992).
Table 3.3. Objectives of the EU (excluding the United Kingdom)

- the promotion of employment;
- improved living and working conditions;
- proper social protection;
- dialogue between management and labour;
- development of human resources with a view to lasting high employment;
- combating of exclusion.


Article 2 of the Agreement allows the EU to form regulations, directives or recommendations with either qualified majority or unanimity with a view to achieving the objectives of Article 1. Qualified majority voting is extended beyond health and safety issues to social policy issues which have been highly controversial, namely working conditions, worker information and consultation rights, equality for men and women, and assistance for unemployed. This, however, excludes the categories of pay, the right of association, the right to strike or the right to impose lock-outs.

The right of association concerns the right to form and to join (or not join) trade unions, staff associations or employers' associations, the right for such organizations to draw their own constitutions and regulations, to elect representatives and formulate programs. These groupings may be within or at national levels as well as European or international levels (Blanpain, 1992). The right to strike relates to workers' collective refusal, whether in a trade union or not, to continue working. A lock-out is an employer's action of denying the opportunity of work to employees in connection with an industrial dispute (Blanpain, 1992).

There is no doubt that the Treaty of Maastricht has facilitated the development of new aspects of social policy (Weiss, 1992), but the right of association, the right to strike, and the right to impose lock-outs will remain issues at the national level. It remains possible for individual Member States to maintain or introduce more stringent measures in the management-labour area (Blanpain & Engels, 1993).

The role of the European Commission is now to encourage co-operation between
Member States and facilitate the co-ordination of their action in all social policy areas, under Article 5 of the Maastricht Agreement. In addition, the Commission has responsibility for the promotion of consultation between management and labour at the EU level, and to take any relevant measure to facilitate their dialogue by ensuring balanced support (e.g., financial or logistic support) for the parties (Article 3 of the Maastricht Agreement).

To summarise the outcomes of the Social Policy Protocol and Agreement, it is clear that several innovations are evident. First, qualified majority voting is extended, thus increasing opportunity for national sovereignty with respect to the social dimension. It should be noted, however, that this extension is applicable only to areas which happen to be highly regulated. One potential outcome of the introduction of qualified majority voting is that certain work practices will be prevented, particularly those practices most often found amongst lower technology, more labour intensive producers (Lange, 1993). Thus, some areas which had been stalled for some years by the intransigence of the United Kingdom, may now achieve some progress. Second, the extent of change brought about by qualified majority voting may be influenced by the new roles of the social partners at national and at European levels. It could be argued that the reforms of Maastricht, by increasing the potential for European level collective bargaining, will lead to an erosion of ability for national governments to determine their domestic labour market regulations (Lange, 1993).

The Roles of the Social Partners

Although the composition and strategies of the social partners, namely management and labour remain largely unchanged by the Treaty of Maastricht, there has been significant enhancement of their roles (Blanpain, 1992). The Agreement provides for a greater role to be played by the social partners in the formulation of social policy (Addison & Siebert, 1994; Fitzpatrick, 1992). These social partners are now entitled to involvement in the formulation of European labour law (Blanpain & Engels, 1993; Carley, 1993). Nevertheless, there is still speculation regarding the role of the
social dialogue in the promotion of harmonised social standards. As Streeck and Schmitter (1991) have suggested, there is evidence that European employers have acted to prevent the centralization of decision making towards the EU level. Similarly, Rhodes (1992) has noted the opposition presented by MNEs towards increased authority at EU level. While it may be possible that employers will become more accommodating over time, perhaps a more feasible notion is that the most effective role of the European Commission may be to act as a facilitator for management and labour to develop their own enterprise-level agreements (Bean, 1994; Clarke & Bamber, 1994; Ramsay, 1991).

Towards a Two-Speed Social Europe?

Prior to the Treaty of Maastricht, all EU Member States were travelling at much the same speed towards integration, albeit some more enthusiastically than others (Dahrendorf, Hoskyns, Curzon Price, Roberts, Wood, Davis & Sealy, 1989; Dankert & Kooyman, 1989; Economist, October 22, 1994; Leborgne & Lipietz, 1990). As a result of the Agreement attached to the Treaty of Maastricht, there are two sets of rules governing ways in which the Member States may develop social policies (Addison & Siebert, 1994). First, the conventional route is to operate within the framework of the Treaty of Rome, which remains largely unchanged with respect to social policies after Maastricht. Thus, labour developments for all Member States (including the United Kingdom) continue under the provisions of the Treaty of Rome, as amended by the Single European Act. Second, there is an alternative route created by the framework of the Maastricht Agreement concluded with the exception of the United Kingdom (Blanpain, 1992). This Agreement excludes the United Kingdom from the decision-making process, although not entirely from its effects (Addison & Siebert, 1994).

It has been suggested that one outcome of the Maastricht Protocol and Agreement is that there is a "two-speed social Europe": one speed for the United Kingdom and another for the signatories to the Agreement (Blanpain & Engels, 1993). The 1995
enlargement of the EU has included the new Member States, Finland, Sweden and Austria, adopting the Treaty of Maastricht and the attached Social Policy and Agreement. The United Kingdom and Denmark are exempted from the Economic and Monetary Union (Schloch, 1995). Bercusson and Van Dijk (1995), however, suggest that it is not clear whether Maastricht represents the development of a "two-speed" Europe or an "à la carte" principle. They argue that these concepts differ with respect to their goals. A "two-speed" Europe would refer to a situation in which the objectives are agreed but the Member States differ in the period within which these goals must be reached. The alternative, 'à la carte", term describes the situation as one in which the Member States have failed to reach consensus on the final goal. To decide a categorisation of the situation as either of the above would require a judgment as to whether the United Kingdom's opting-out of the Agreement may be viewed as temporary or permanent. It is interesting to note that the Social Policy Protocol contains no explicit mechanism for "opting in", unlike the Protocol on economic and monetary union (Bercusson & Van Dijk, 1995).

While not formally extending EU competence into new areas of social and employment law, the Social Policy Protocol provides a framework for participation of labour and management in the formulation and application of labour law at both national and EU levels, by providing a code for the role of organised capital and labour in the development of social policy. It follows the Social Charter, yet marks an important development which may be seen as a fundamental change in European labour law (Bercusson, 1992, 1993).

It has been suggested that the Treaty of Maastricht negotiations and the overall historic approach to the social dimension of the EU have a stop-go character. For example, the objections raised by the United Kingdom threatened to halt progress; this was overcome by the United Kingdom opting out of the Maastricht Agreement. Schneider and Cederman (1994) have argued that European regional integration will continue to exhibit unpredictable patterns, particularly where intergovernmentalism and unanimity characterise major decisions. These authors present an explanatory framework which postulates that information asymmetry amongst Member States
accounts for the effects of strategic bargaining in the integration process. It is suggested that further progress, including integration of social policy will be enhanced by expanded application of qualified majority voting. Essentially, under qualified majority voting, integration is expected to be smoother as the opportunities for any one Member State to stall negotiations are minimised (Schneider and Cederman, 1994).

The European Community Social Charter provided an important development in the social dimension, although it suffers from two major shortcomings. First, the Charter contains only principles which need to be implemented by further measures, rather than directly bringing rules into force. Second, the Charter has no legally binding effect. The Treaty of Maastricht partially overcomes the second weakness of the Charter through the Agreement (excluding the United Kingdom), preceded in the Treaty by the Social Policy Protocol (to which the United Kingdom is a signatory).

The Maastricht Agreement allows the Council of the European Union (excluding the United Kingdom) to adopt, by qualified majority voting, directives relating to the information and consultation of workers. Unanimous voting is required for matters relating to representation and collective defence of the interests of workers and employers, including co-determination. This has led to some debate regarding the possibility for new perspectives of European Community rules for co-determination, consultation and information (Bercusson & Van Dijk, 1995; Ramsay, 1991; Van Peipje, 1995; Whiteford, 1993). In September 1994, the European Works Council directive (94/45) was adopted. This finally provides tangible evidence of progress in this area, as it is the first proposal regarding co-determination to be adopted after two decades of unproductive effort. This directive obliges MNEs with more than 1000 employees to provide certain procedures for information and consultation to workers' representatives. Thus, this directive clearly incorporates collective aspects.

Collective aspects are also to be found in the directive on working time (94/104). This directive allows for derogation from certain standards through collective bargaining. Through such developments, managerial interests in flexibility are served;
the interests of labour are also served to some extent, in that trade unions may exert some control over deteriorating conditions of employment (Catinat, Donni & Taddei, 1990; Delsen, 1990; Valkenburg & Zoll, 1995).

The Treaty of Maastricht and the attached Social Policy Protocol and Agreement recognise the principle of subsidiarity in two forms. First, the EU shall take action only if objectives relating to regulation of the social partners cannot be achieved by the Member States acting alone. The second form of subsidiarity refers to the choice between the legislative and agreement-based approaches, a choice available to the eleven signatories of the Agreement (Bercusson & Van Dijk, 1995; Van Peipje, 1995). This recognises the role of workers' and employers' organisations, such as ETUC, UNICE and CEEP, in the making of EU rules, and provides some guide for the processes of dialogue and consultation between the social partners. Although firm-level consultation procedures and collective bargaining are increasing, European collective agreements are still relatively rare. The spread of collective bargaining throughout the EU has largely been founded on voluntary lines and according to employer models. This has been an important issue: while employers do appear to want collective bargaining at enterprise level, they do not want this to become a matter for national (or EU-level) mandate (Ramsay, 1991; Turner, 1993).

The Agreement provides for the promotion of European collective bargaining, inasmuch as collective agreements between employer and employees, conducted at European level, may be reinforced by a decision of the Council of the European Union and thereby become legally binding throughout the territory of the Member States adopting the Maastricht Agreement. Speculation remains as to whether the role of collective bargaining can be expanded at European level. Impediments for successful European-level negotiation include the lack of authority held by UNICE and ETUC across the Member States. On the other hand, opportunities for collective bargaining at the national level will remain, assuming that EU legislation retains its approach of minimum standards and framework rules, allowing for some national variation in implementation (Van Peipje, 1995).
Bercusson and Van Dijk (1995) point out that there may be legal ambiguities in the documents which will create some confusion for management and labour in their efforts for consultation. It is obvious that much more discussion of the evolving framework of EU regulation and guidelines will occur in both academic and bureaucratic arena. The emerging challenge for management academics and practitioners alike appears to involve the acquisition of appropriate and up-to-date information and legal advice with regard to the possible alternative directions opened to the social dialogue by the Treaty of Maastricht and the Social Policy Protocol and Agreement.

**The European Union Social Dimension and Labour Law Developments**

The development of the EU social dimension is inextricably bound with the development of labour law. It could be argued that the combination of worker protection and forms of restriction on economic competition between competitors which is fundamental to labour law in fact adds a social dimension to the principles of free market competition, thus facilitating the functioning of modern capitalism (Compa, 1993; Vandamme, 1985; Van Peipje, 1995). In the case of EU labour law, there is some evidence of efforts to balance the goals of free market competition with collectivist endeavours.

Frameworks for national labour laws in EU Member States developed mainly in the years immediately following World War II, virtually concurrent with the earliest developments of the European Communities. The ensuing development of EU labour law has inevitably been influenced by the national labour laws of Member States (Bercusson, 1993, 1995). As Bercusson (1995) has argued, to understand EU labour and social law, it is necessary to recognise the complex relationships and influence of national labour laws. Bercusson (1995) provides several examples, including:

- Insertion of Article 119 in the Treaty of Rome was due to the insistence of France, wishing to extend their national legislation on equal treatment of men and women;
- EU proposals on workers' participation in company structures were largely influenced by German labour law on co-determination;
- The inclusion of social and economic rights in the constitutions of Spain, Portugal, Greece and the Netherlands influenced the formulation of the Community Charter of Fundamental Social Rights of Workers.

Labour law in the EU has evolved through a number of stages in the development of the EU. Overall, legislation in the social dimension of the EU remains underdeveloped in comparison with the economic dimension. A large proportion of EU labour law is concentrated in three areas: free movement of workers; equal treatment of men and women; and occupational health and safety. In each of these areas, progress has focused more on the rights of individual workers than on trade union or other forms of worker representation (Van Peipje, 1995).

In the early years of development (1950s to 1970s) the character of European labour law was highly individualistic. In the 1970s, however, several contributions to the development of collective labour law were evident. These include the directives on collective redundancies (75/129, amended and reinforced by 92/56) and on the transfer of undertakings (77/187) (Van Peipje, 1995). These directives include collective rights to information and consultation for workers.

Throughout the development of the EU, the purpose of European-level labour law has been to equalise labour costs for employers across the various Member States, resulting in three dominant characteristics. First, there are mandatory rules to prevent deviation which may undermine equality in competitive conditions. Second, there are minimum standards specified in rules [to prevent social dumping (Erickson & Kuruvilla, 1994)]. Third, there is some emphasis on the rights of individual workers, as these are seen as contributing more to the determination of the costs of labour than do collective rights (Van Peipje, 1995).

Van Peipje (1995) focuses on the implications of European labour law developments for the Netherlands, noting that the impact may differ across Member States and
according to the matter concerned. His evidence provides some foundation for the argument that European Community labour law may act as a support to collective bargaining at the national level, rather than an impediment (Van Peipje, 1995). In the arena of collective labour law, the directive on European works councils will be implemented mainly through collective bargaining; this represents some change from the Dutch system of co-determination (Van Peipje, 1995). Also, with regard to occupational health and safety, much progress has been made with a large number of decrees issued. However, given the extensive nature of previous Dutch health and safety legislation, any changes specifically resulting from EU law are perhaps minimal. In contrast, the principle of equal treatment of men and women, as contained the Single European Act and several European directives has had a great impact, provoking litigation and repeated amendments to labour law and social security law in the Netherlands. As a result, Van Peipje (1995) suggests that EU law has provided impetus for significant improvement in the rights of women in the Netherlands.

Labour Law Outcomes

It must be concluded that, although the supranational labour law which has developed in the EU has had some impact on the employment environment across Member States, the extent of the impact is less than might have been anticipated. Teague and Grahl (1989) cite a number of explanatory factors: Member States' control over the mechanisms by which EU law is adopted into national law; the limitations of EU directives in legal terms; deficiencies in the European Commission's non-compliance procedures; and complexities of several areas of EU labour law. Many European Commission proposals have failed to become ratified; transferring industrial relations practices across national borders is fraught with difficulty (Bamber & Lansbury, 1993; Teague & Grahl, 1989).

One criticism levelled at the Treaty of Maastricht is that the measures used to put in place economic and monetary union will establish deflation across the EU. This, it has been argued, will result in diminished growth, high unemployment, and significant cuts in social welfare provision (Baimbridge, Burkitt & Macey, 1994). Correlations
between economic recession and support for extreme right-wing political parties may exacerbate racism in the EU. Baimbridge et al. (1994) have argued that the European Commission has facilitated the mobility of goods and capital while restricting the movement of people who are not citizens of Member States. Several Member States, including the United Kingdom, France, Spain and Germany, have introduced immigration legislation which narrows the definition of citizenship. In many such cases, visible minorities have been targeted for exclusion from the EU. Overall, the trend appears to be towards stricter controls and surveillance.

When people are denied citizenship of the country in which they have lived and worked for many years, they (and their children) face the daily experience of marginalization and insecurity. This is the situation for the vast majority of immigrants to western Europe since 1945 (Baimbridge et al., 1994: 425).

Thus, it has been argued that the Single European Market may contribute directly to the development of policies which are enacted in such a way as to be discriminatory. Further, it is possible that the Treaty of Maastricht carries a deflationary impact which may act to intensify racism, both systemic and informal, in the EU. It is plausible that the emphasis placed on price stability may lead to restrictive budgetary and monetary policies, with associated decrease in growth and increase in unemployment. Such conditions have been documented in the past as linked to increased calls for reduction of immigration and asylum rights (based on the belief that this will ensure greater availability of employment for indigenous peoples), even despite evidence to the contrary. In brief,

...the Maastricht Treaty will result in slow growth rates, high unemployment and reduced standards of living. In sum, it will create exactly the kind of environment in which virulent racism flourishes (Baimbridge et al., 1994: 435-36).

Critics of the Maastricht Protocol and Agreement have also argued that it will lead to erosion of Member States' sovereignty, as they would no longer be able independently to determine a number of regulations governing the social dimension (Lange, 1993).
One question is fundamental:

*why do sovereign states agree to the establishment of institutions and decision rules that are likely to erode their sovereignty and/or lead to decisions costly to them?* (Lange, 1993: 6).

It might be suggested that the signatories to the Maastricht Agreement expected net gains with more centralised social policy and workplace standards. In fact, Lange (1993) estimates that three or four Member States (Portugal, Greece, Ireland and possibly Spain) could encounter consistent losses as a result of qualified majority voting. This would be due to the adoption of standards which are above their national production costs structure (reflected in social security expenditures, hours worked, and manufacturing costs). Perhaps their agreement was driven by ideology or by a powerful national trade union movement? Neither explanation appears plausible (Lange, 1993). An alternative explanation may be that any short-term economic disadvantages for these poorer Member States may be outweighed by medium and longer term advantages. The increase in structural funds may also contribute to the explanation. It may, in fact, make more political sense than economic sense.

In his farewell speech to the European Parliament in Strasbourg on January 19, 1995, Delors presented a last appeal for a federal Europe. The major reforms brought during Delors' term were, as he himself identified: the Single European Act, the Treaty of Maastricht, development of environmental policy, reform of the Common Agricultural Policy, and "social" Europe (Delors, 1995; *European Union News*, January/February 1995). It is the latter which appears to have generated most controversy; the following section of this chapter examines selected controversies relevant to this thesis.

**Contested Developments With Regard to the Social Dimension**

There has been significant change with regard to several aspects of the EU social dimension, with the promulgation of a number of directives (Addison & Siebert,
In 1985, the European Commission made approaches to both the ETUC and the UNICE for a social dialogue. The European Commission [acting on Article 118(b) of the Single European Act] promoted discussions between the two social partners in a series of meetings. Delors suggested that, if the social partners accepted this move, the European Commission would refrain from introducing any further items of social legislation, instead allowing such items to emerge from the dialogue. Relations based on agreement, as cited in Article 118(b), might also include European-level framework agreements. Therefore, it appears to have been the opinion of the European Commission that it would be necessary to go beyond simple dialogue and seek to make negotiated agreements a key element of efforts to achieve European integration (Official Journal of the European Communities, 1991c). Two working parties were established, one on employment policies and the second on new technology and work. As they met at the chateau of Val Duchesse, just outside Brussels, this has become
known as the 'Val Duchesse' dialogue (George, 1991; Nicoll & Salmon, 1990).

This 'social dialogue' yielded only non-binding joint opinions on topics including new technologies and vocational training, although these were instrumental in the development of Article 118B of the Single European Act (1986). Article 118B explicitly charges the European Commission with the responsibility for the promotion of social dialogue at the European level. Concurrently, Article 118A of the Single European Act facilitated the harmonisation of occupational health and safety measures by introducing the requirement for qualified majority voting rather than unanimity in this area. This Article formed the basis for the directive on the work environment (directive 89/391). This directive also includes collective rights to information and consultation for workers.

There were difficulties and differences of opinion from the beginning of this process (Carley, 1993). The British government was hostile to the idea of dialogue between employer and employee representatives at EU level. UNICE insisted that the process should lead to the publication of 'joint opinions', rather than 'agreements'; UNICE thought these opinions should not lead to legislation. ETUC believed the process should lead to legislation (ETUC, 1989, 1991). Little came from these two working parties (Brewster & Teague, 1989). Another factor which may explain the past slow progress with regard to the social dimension is a structural one: that the unions (represented by ETUC) are better organised at the EU level than are the employers (represented by UNICE). UNICE does not speak for all employers, as many employers appear reluctant to cede authority to an organisation that may draw them into unwanted arrangements or even collective bargaining agreements at the EU level (Nicoll & Salmon, 1990). In January 1989 the European Commission attempted to revise the process; it was agreed that a steering committee of representatives of ETUC, UNICE, and the Commission be established to stimulate the process. Further, it was agreed that the subject matter for this group should include all areas of the Social Charter, with particular emphasis on education and training, and the matter of a European company statute (Brewster & Teague, 1989; Carley, 1993). This was supported by eleven states but deplored by the British government.
In 1992 the social partners agreed that there should be direct connection between the social dialogue and formulation of EU directives related to the social dimension. Further, in 1993, the social partners agreed to a re-assessment of the regulations and processes for social dialogue, with a major focus on the implications for collective bargaining (Teague, 1994). Formalization of arrangements for the social dialogue is provided in the Treaty of Maastricht (Gold & Hall, 1992). Assumptions of pluralism and partnership lie at the core of the EU social dimension and continue to cause debate with regard to progress in dialogue between the social partners (Carley, 1993; Guest, 1995).

Information, Consultation and Participation For Workers

The word *information* refers to the communication of disclosure of knowledge to workers by an employer, who will also provide explanation and answers to question raised. The meaning of *consultation* is, however, less clear. As Blanpain (1992) as shown, consultation may include an exchange of views and discussion of proposals, put forward by management or labour, or it may imply that the employer retains the power to make decisions, after having listened to the views of employee representatives.

Several attempts by the European Commission to establish interventionist social policies (such as the Fifth draft directive on the harmonisation of company law, the Seventh, known as the Vredelang directive, and Ninth draft directives on worker consultation and rights to information) caused major divisions between some Member States and Community institutions as well as between the social partners.

In 1970 and 1975 there were proposals for a European company statute. In 1972 the draft Fifth directive on the Structure of Public Limited Companies was presented to the Council of the European Union. This proposed that all companies with more than 500 workers be required to establish two-tier boards: one supervisory, the other day-to-day management of the enterprise, which would involve representatives of the workers. This encountered considerable opposition from UNICE and from some
Member States. The European Commission removed the proposals and issued a Green Paper (Brewster & Teague, 1989).

Following this, the draft Seventh directive was proposed in 1980 but failed to achieve acceptance. This has become known as the Vredeling directive, as it was initiated by Hank Vredeling, a Dutch former member of the European Commission (Van Den Bulcke, 1984). This directive would have required management to inform workers of plans which would directly affect them. The Vredeling directive proposed that these rules would apply to all enterprises employing more than 100 workers. This met much criticism from UNICE and the British government, so the European Commission made drastic changes, and the threshold was raised to 1,000 employees.

It was also proposed that the Vredeling directive would apply equally to any cross-border EU undertakings, including non-EC MNEs with subsidiaries or branches in the EU. Hence the Vredeling directive was of considerable significance to non-EC companies seeking to operate in the Single European Market.

One objective of the Vredeling directive was for employees at plant level to have an opportunity to be involved in matters occurring at a higher level which may affect them. This would be achieved by allowing employees the right to information at least once a year, on matters such as the company's general circumstances and prospects, its competitive position and its plans. Employees would also be given the right to be consulted in relation to decisions which would be likely to have "serious consequences" for them. It was proposed that this consultation process must take place before implementation of a proposed decision and a minimum of 30 days must be allowed for consultation. Although the directive states that the parties must attempt to reach agreement in relation to the proposal under discussion, it was clear that the employees would not be given any power of veto. A revised proposed directive was also vetoed by Britain (Brewster & Teague, 1989; George, 1991; Martin & Rider, 1988). Thus, the Vredeling directive has consistently been blocked, due to its perceived incompatibility with Member States' national laws and practices, as well as political or ideological objections (Danis & Hoffman, 1995; Hall, 1992).
The rejection of the Fifth and Seventh directives, both endeavours to achieve more systemic, institutionalised employee participation in corporate decision making (Hall, 1992), had serious implications. Since the 1960s there have been calls for the EU to establish a European company statute for the encouragement of national companies to merge and form European companies, able to compete globally with US and Japanese MNEs. Although the Council of the European Union had passed a resolution in favour of the creation of a European company statute, the failure of the two directives led the European Commission to defer the proposal of any directive in this area; it was evident that the Germans would only accept a proposal which incorporated worker participation, and the British would not accept this (George, 1991). The Social Charter included objectives of worker participation as well as the idea of a European company statute, although these were vigorously debated (Lodge, 1989).

The United Kingdom Government, and United Kingdom employer representatives, argued that employee involvement be voluntary and have been critical of the cumbersome nature of EU legislation in this area. Northrup et al. (1988) suggested, with respect to the Vredeling directive, that it was not the value of consultation with employees which was questioned, but whether such processes could or should be legislated. The Vredeling directive was not revolutionary, but it met with unprecedented opposition from vested employer interests, particularly in MNEs who were to be affected by it. By contrast, the various trade unions in the EU states were often ill-informed as to its existence (Barry, 1990).

Impetus for EU social policy in the area of worker information, consultation and participation came primarily from the German government. Schemes for worker participation in decision making were at the foundation of German industrial relations; the unions and government were concerned that if companies were able to operate across the EU post-1992, they would switch production to countries with lower wage rates and no co-determination laws (George, 1991).

There has now been quite a long and contentious history of attempts to introduce EU
measures for employee participation (Cressey, 1993; Turner, 1993). There have been several developments with regard to worker participation, as some directives referring to specific matters of employee participation and consultation have been adopted by the Council of the European Union. These include the 1975 directive on collective redundancies; the 1977 directive on transfers of undertakings, and the 1989 'framework' directive on health and safety (Hall, 1992).

Hence, worker participation has emerged as a specific issue in the harmonisation of HR management practices and industrial relations in the development of a unified Europe. The Confederation of British Industry recently protested that the European Commission's proposals could lead to significant cost increases and place United Kingdom companies at a competitive disadvantage. However, six Member States already have some employee participation legislation while another three have collective bargaining agreements which allow for some employee participation. Companies in these countries have, therefore, already faced the related costs which would be new to the United Kingdom companies.

*European Works Councils*

In January 1991, the European Commission published a draft directive which would require the establishment of European works councils (EWCs) in large enterprises operating across two or more EU countries (*Official Journal of the European Communities*, 1991a). The aim of this draft directive is to bridge the gap between increasingly transnational corporate decision making and employees' nationally-defined rights for information, consultation and participation.

The basis of the draft EWC directive was the establishment of EWCs (or similar) in every 'Community-scale' undertaking, this being defined as an undertaking with at least 1000 employees within the EU, including at least 100 employees in each of at least two EU states. This also applies to any 'Community-scale group of undertakings', defined as a group with at least 1000 employees within the EU and at least two group undertakings in different EU states, each with at least 100 employees.
within the EU. The establishment of EWCs would be required where requested by employees or their representatives, or initiated by management. MNEs headquartered outside the EU may fall within the definition of Community-scale undertakings or groups, in which case responsibility for following the directive's requirements would lie with the MNE's 'representative agent' or, in the absence of such an agent, with the management of the enterprise or group employing the highest number of employees within the EU (Hall, 1992).

The draft directive did not stipulate the scope, competence or mode of operation of EWCs; this is left for management and a 'special negotiating body' of employee representatives to negotiate. They may even agree unanimously not to establish an EWC, or to operate alternative information and consultation arrangements (if these meet minimum requirements). If negotiations commence, but agreement is not reached after one year, certain minimum requirements apply. These minimum requirements limit the competence of EWCs to matters which concern the undertaking or group as a whole, or at least two or more establishments in different EU states. EWCs will have the right to meet annually with central management to be informed of the group or undertaking's progress and prospects. The EWC also would have the right to consultation on management proposals such as: mergers, closures or relocations; organisational change; and new working or production methods. Minimum requirements also state that EWCs would have a maximum of 30 members from existing employee representatives, or elected where there are no employee representatives. Operating expenses of EWCs are to be met by the undertaking or group (Danis & Hoffman, 1995; Hall, 1992).

The 1991 draft EWC directive was influenced by several factors: the Single European Market program and the new context provided; pressure from trade unions; voluntary establishment of 'prototype' EWCs in a number of leading European MNEs; lessons learnt by earlier EU initiatives; and intra-EC political and institutional considerations (Clark & Hall, 1992; Hall, 1992). Hence, the European Commission focused on employee participation at a transnational level, and sought an approach which would accommodate various national systems.

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First, the European Commission sought to connect moves for employee participation with the development of cross-border organizational structures encouraged by the Single European Market program. The Social Charter reflected the implications of this transnational activity in its emphasis on the need to develop information, consultation and participation, "especially in companies or groups of companies having establishments in two or more member-states" (Commission of the European Communities, 1990d: 49). The Action Programme accompanying the Social Charter included proposals for revising the 1975 collective redundancies directive (mainly to ensure transnational applicability). This reflected concern in the European Commission that employees would, without an EU directive, be disadvantaged in dealing with MNEs, by being restricted to nationally-defined rights to information and consultation, generally at enterprise or establishment level (Commission of the European Communities, 1990a; Hall, 1992).

Second, trade union objectives and pressure, through ETUC and through the workers' group in the Economic and Social Committee, played an important role in encouraging the European Commission to direct the Social Charter Action Programme to resemble the Vredeling proposal. ETUC has aimed for the development of transnational unions and cross-border collective bargaining in MNEs since its formation in 1973 (Bean, 1994). ETUC policy and proposals put forward for inclusion in the Social Charter's Action Programme included explicit demands for the creation of an EU framework for works councils in MNEs in Europe (ETUC, 1989). The Economic and Social Committee supported this approach (Hall, 1992).

Third, 'prototype' EWCs pioneered in the late 1980s by French-based MNEs such as Thomson Grand Public and Bull received much attention and to some extent provided a model for EU policy makers to follow (Northrup et al., 1988; Riemer & Schares, 1988). However, by the end of 1990, these voluntary EWCs still existed in only a few European MNEs (Hall, 1992; Krieger & Bonneton, 1995). By 1995, it was estimated that at most, 30 EWCs existed, representing approximately 2 to 3 per cent of those MNEs which fulfil the directive's criteria (Keller, 1995).
Fourth, the experience of earlier employee participation initiatives provided useful lessons for the European Commission. The 1991 EWC draft directive sought to avoid or overcome the apparent problems and inconsistencies evident in previous directives.

The final influential factor was the limits placed on EU competence to legislate with regard to industrial relations, when placed against the European Commission's fairly obvious desire to expand such powers. The principle of *subsidiarity*, included in the Maastricht Treaty, means that issues should be dealt with at the most decentralised level appropriate (as noted in Chapter 2). In the endeavour to achieve a meaningful balance between a strategy of upward harmonisation (not viable with increasing heterogeneity of Member States as numbers grew), and a fully decentralised approach, the European Commission developed a new strategy in which the EU would provide broad *minimum standards* and Member States would have considerable discretion in their practical application. The Social Charter became the major vehicle for this strategy, the final version of the Social Charter (agreed by 11 states) emphasized subsidiarity and the need for national practice to be respected (Commission of the European Communities, 1990c). This was reflected in the 1991 EWC draft directive. The EWC directive must be presented under Article 100 of the Single European Act, which requires unanimous voting by the Council of the European Union for adoption. Addison and Siebert (1992) contend that this draft directive was controversial also because it sought to impose an extra layer of information and consultation upon that already existing in Member States. They argue that the EWC structure would actually be more cumbersome, less flexible than the European Commission would admit. Addison and Siebert (1994) suggested that, for example, labour market flexibility may be reduced because the introduction of EWCs may forebode a re-centralization of industrial relations decisions, in turn precipitating less effective management and less flexibility in remuneration.

Reaction to the 1991 EWC draft directive was mixed. Employee representatives expressed satisfaction, employer representatives declared it totally unacceptable, the Economic and Social Committee and the European Parliament responded positively, and the United Kingdom government saw it as incompatible with national practice.
(Hall, 1992). It is possible that Britain's opting out of EU social policy framework since the Maastricht summit has in effect paved the way for qualified majority voting in more areas of social policy, such as the EWC matters. This can be seen in the requirement for United Kingdom-based MNEs operating in other EU Member States, if they meet the employment numbers required by the directive, to be obliged to establish EWCs in their non-United Kingdom operations (Gohde, 1995).

The implications of the EWC draft directive for MNEs are also evident in a proposal on collective redundancies (Official Journal of the European Communities, 1991d). The aim of this proposal was to extend the obligation to inform and consult with workers about anticipated layoffs beyond the immediate employer (which may, in MNEs, be incidental to the decision) to the MNEs themselves. This was achieved in the draft directive by disallowing the defence that the immediate employer "was not provided with the information necessary to discharge his [sic] consultation responsibilities" (Addison & Siebert, 1992: 502).

The 1994 EWC Directive
On September 22, 1994, Council directive (94/45) was adopted, on the establishment of an EWC or a procedure in Community-scale undertakings for the purposes of informing and consulting employees. This directive aims to ensure that MNEs employing more than 1000 people will be required, if relocating their activities or closing down a factory, to provide "adequate" notice to their employees. This directive had been blocked for some 14 years by employers and by some EU Member States. Entering effect in 1996, the directive grants employers and trade unions three years in which to draft information procedures acceptable to all parties. Should the parties fail to complete this task, the introduction of EWCs will become obligatory. Each EWC will be comprised of between 3 and 30 members, meet at least annually and have the task of informing workers of all major decisions relating to the organisation's activities (Savioni, 1995). At present, some MNEs, including Renault, Volkswagen, and Bayer, already consult their workers in such a process. It has been estimated that this consultation procedure will eventually affect some 4.5 million
workers in 1200 companies (European Union News, October/November, 1994). As the United Kingdom has not signed the Agreement to the Maastricht Treaty, it is not bound by the EWC directive. However, subsidiaries of British MNEs located in other Member States will be obliged to comply with the directive. MNEs based outside the United Kingdom but operating there may decide not to establish EWCs for their employees in the United Kingdom, but must comply with the EWC directive elsewhere (Furlonger, 1992; Gohde, 1995). This will also to European subsidiaries of non-EU companies, such as MNEs based in Australia.

Hence, the proposed Vredeling directive of 1980 foundered as an attempt to encourage MNE-union consultation (Bean, 1994). More recently, the establishment of EWCs may come to play a stronger role. The EWC directive (Gold & Hall, 1994; Marginson, Armstrong, Edwards & Purcell, 1995) has the potential to offer employees and trade unions a mechanism for European-level organization. The scope of the directive was, however, limited to information and consultation; it does not provide for substantive collective bargaining over the wide range of labour-management issues which arise in MNEs (Marginson et al., 1995).

The pursuit of effective labour-management relations continues (Lodge, 1989). Indeed, some commentators see the battle for economic revival of the EU as based on the issue of labour market reform, particularly with regard to the removal of inflexibilities (Teague, 1989b). More recently, employees and trade unions are seeking job security, while employers are seeking increased flexibility in the workplace and decreased labour costs (Bean, 1994; Springer, 1989).

Collective Agreements

Collective bargaining, in a broad sense, includes all bipartite or tripartite discussions regarding management-labour issues, aimed towards generating greater understanding, resolution, implementation of policy, although not necessarily resulting in a binding agreement. In a more specific sense, collective bargaining may refer to binding agreements resulting from a process of consultation between management and
labour (Blanpain, 1992). It should be noted that, due to the subsidiarity rule, collective bargaining at the European level is possible when this will provide better results. Collective agreements at European level can be either a: European company agreement; European industry agreement; European multi-industry wide agreement; or a European multi-regional agreement (Blanpain, 1992).

On the side of management, any of the above could involve EU-located subsidiaries of non-EU MNEs. It would not be necessary to have subsidiaries in every Member State. Further, subsidiaries located outside the EU may or may not be involved in the agreement. Employers' associations or European confederations of employers' associations may also be involved. On the side of labour, workers may be represented by trade unions which represent members in the subsidiaries, or a European company trade union, or an EWC (which may or may not involve trade unions), or sectoral unions, or regional unions, or national unions, or confederal unions (grouping national confederations of unions). The possibility of a multi-company agreement cannot be excluded (Blanpain, 1992). There are several legal questions and problems which arise from speculation about European collective agreements. These are discussed by Blanpain (1992) and will no doubt receive further attention in the field of labour law.

Other Aspects of the EU Social Dimension

In addition to those areas already discussed, the EU social dimension covers a broad range of aspects related to working and living conditions (Séché, 1994). Some areas, such as occupational health and safety (OHS), have shown significant progress towards integration at the EU level. In fact, there has been more agreement about OHS issues than about many other issues in the social dimension. The European Commission holds the view that OHS is an objective which should not be subordinated to economic concerns. Even prior to the Single European Act, OHS was an area of some success for the European Commission. Between 1978 and 1987, 11 directives related to OHS were adopted, and there have now been three safety Action Programmes. By June 1990 the number of OHS directives had risen to 21 (Addison & Siebert, 1992). The Social Charter Action Programme then proposed
another 10 OHS directives and a new European OHS agency. Overall, noteworthy progress has been made in this area (Addison & Siebert, 1992; Perspectives, 1994).

On the other hand, several aspects of the EU social dimension are still in developmental stages, with sporadic progress thus far. These issues include: equal opportunity, free movement of labour, education & training, management of atypical work, harmonization of working time arrangements, and harmonization of wages and social security benefits (Bielenski, 1994; Espina, 1990; Fredman, 1992; Meehan, 1990; Meulders & Plasman, 1993; Pantaleo & Miller, 1991; Rubery, 1992). These aspects of working conditions are important considerations for all employers and employees. Given the developmental status of many of these issues, they will not be detailed further in this thesis. It is worth noting, however, that Australian MNEs would be familiar with such issues, as Australia had a progressive social democrat federal government from 1983 to 1996.

The matrix of national laws, collective agreements, practices and procedures which reflect the different traditions and cultures in the various Member States form a substantial platform of social policies in the EU. These deal with a wide range of subjects such as employment, working conditions, vocational and professional training, occupational health and safety, the right of association, employee relations and collective bargaining, equal opportunity, and social security (Gold, 1993). It is apparent that the impact of the social dimension may not be the same in all Member States (Bercusson & Van Dijk, 1995; Van Peijpe, 1995). Overall, it is inevitable that the social dimension will have the potential to influence how human resources available within the Member States can best be deployed and encouraged to apply their knowledge and skills to achieve a more competitive and prosperous Union.

**Social Challenges Facing the European Union**

Several external challenges continue to be influential in progress in the EU social dimension. First, there is tension between, on one hand, internationalism, particularly
with regard to economic matters and markets, and, on the other hand, nationalism, or even regionalism. A second challenge relates to migration, and the racist responses which have emerged within Europe. Associated with this is recognition of the need to compensate for the aging Western European population by introducing younger and qualified entrants to the labour market (Blanpain, 1992). Third, increasing international competition continues to create enormous challenges for MNEs.

Internal challenges include the struggles involved in the development of the European Monetary Union, the principle of subsidiarity (and the implications for areas in which the EU has competence); mobility of labour throughout the EU and development of an EU social security system; and the need for a real and sustained social dialogue at the European level, between employers' associations and trade unions. Characteristics of the workforce (less blue collar, more women, more highly educated) are also a factor to be considered in social policy (Blanpain, 1992).

Within the framework of EU-level mandates established by the Treaty of Maastricht, further legislative development in the social dimension is inevitable. The implications for MNEs in the EU are likely to be wide-ranging and significant (Scarperlanda, 1992). These implications are discussed in more detail in the next Chapter.

At least until the conclusion of negotiations in the Turin IGC, EU social policy will be governed by the Treaty of Maastricht and by the Agreement attached to the Social Protocol (Commission of the European Communities, 1993a; 1993b; 1994a). As noted in Chapter 2, the Turin IGC has responsibility for revision of the Treaty of Maastricht. The insertion of part or all of the Social Charter into the Treaty on European Union is one of the priority objectives of the 1996 Conference (European Union News, June/July 1995; Ellingsen, 1996).

Summary

The social dimension of the EU has developed significantly over the decades since the
The immediate post-WWII period. The Treaty of Maastricht has provided a significant step forward, although the journey towards a fully formed social dimension is by no means complete. Through the various provisions covered in the Treaty, Protocol and Agreement, the Treaty of Maastricht provides a more solid foundation for the future development of the social dimension (Blanpain, 1992). It is likely that revisions brought by the Turin IGC will facilitate fuller participation of the social partners in social policy making, clarification and elaboration in several areas of social policy, and new innovations.

Overall, the Treaty of Maastricht and related directives have increased the scope for EU-level regulation of the labour market (Addison & Siebert, 1994). The overall character of the social dimension will continue to evolve and grow in influence.
CHAPTER 4.
THE RELEVANCE OF THE EUROPEAN UNION SOCIAL DIMENSION
FOR AUSTRALIAN MULTINATIONAL ENTERPRISES

Objectives of this Chapter

The objectives of this chapter are to review and analyse the implications of developments in the European Union (EU) for Australian MNEs. An overview of the international business and management context is presented, with particular consideration of the relationship between the EU and Australia.

While Australia is not the most significant trading partner for the EU, this chapter shows that the EU is Australia’s largest economic partner when merchandise trade, trade-in-services and investment levels are combined (Department of Foreign Affairs & Trade, 1994a). There are, however, emerging challenges related to efforts to achieve balance between Australia’s predominantly European cultural heritage and its Asia-Pacific geographic positioning (Garnaut, 1991). Important domestic factors which are influential for Australian enterprises are considered, with attention to recent research findings with implications for SIHRM in Australian MNEs.

The European Union, Regional Dynamics & the Global Context

As discussed in Chapters 2 and 3, the Single European Market was brought about through legal and political activity in which enterprises were openly invited to participate (Bercusson, 1995; Dudley, 1989). Placing the dynamics of the EU in the context of increasing activity in international business markets, it is undeniable that competitive intensity has increased in most EU industrial sectors.
The development of the Single European Market has brought a multitude of opportunities, challenges and problems for foreign enterprises wishing to operate there, due to the intensification of competition amongst enterprises (Almor & Hirsch, 1995). On January 1, 1995, the EU had 371.5 million inhabitants, compared with 348.6 million on January 1, 1994 (European Union News, September/October 1995). The fifteen Member States of the EU includes a labour force of around 150 million people. The unemployment rate in early 1996 ranges from 2.6 per cent in Luxembourg to 22.8 per cent in Spain. Using International Labour Office criteria, the number of unemployed persons in the EU was 17.5 million at the end of 1995 (Bielenski, 1994; European Union News, February/March 1996: 6). Population and unemployment details are shown in Table 4.1.

Gross domestic product details for Australia and each EU Member State are also shown in Table 4.1. In 1996, the EU is the largest market in the world with a total GDP worth over $US 8,140 billion. The EU accounts for 20 per cent of world merchandise trade, and has a strong export growth rate of 12.4 per cent (European Business Review, 1996).

The development of the EU provides an advanced example for the regional formation of international governmental alliances emerging in various forms across all continents. The EU model is perhaps at the more sophisticated and complex end of the spectrum of regional groupings which are emerging, with greater political integration and international co-ordination than is evident as yet with other regional agreements. In various forms, there has been rapid and remarkable formation of regional trading arrangements in the early 1990s (Department of Foreign Affairs & Trade, 1994a).

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Throughout this thesis, currencies have been converted to US dollars for convenience to readers.
Table 4.1. Population, Unemployment and GDP Statistics, Australia and the European Union

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>Unemployment rate (%)</th>
<th>GDP ($US billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>18.1</td>
<td>8.4</td>
<td>306.8</td>
</tr>
<tr>
<td>Austria</td>
<td>7.9</td>
<td>7.3</td>
<td>138.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>10.5</td>
<td>14.3</td>
<td>160.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>5.2</td>
<td>9.1</td>
<td>104.0</td>
</tr>
<tr>
<td>Finland</td>
<td>5.1</td>
<td>17.8</td>
<td>67.7</td>
</tr>
<tr>
<td>France</td>
<td>57.7</td>
<td>11.8</td>
<td>931.0</td>
</tr>
<tr>
<td>Germany</td>
<td>81.1</td>
<td>11.1</td>
<td>1441.1</td>
</tr>
<tr>
<td>Greece</td>
<td>10.4</td>
<td>4.7</td>
<td>54.8</td>
</tr>
<tr>
<td>Ireland</td>
<td>3.5</td>
<td>13.1</td>
<td>36.6</td>
</tr>
<tr>
<td>Italy</td>
<td>57.2</td>
<td>12.6</td>
<td>720.2</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>0.4</td>
<td>2.6</td>
<td>9.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15.4</td>
<td>7.1</td>
<td>231.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>9.8</td>
<td>7.0</td>
<td>61.8</td>
</tr>
<tr>
<td>Spain</td>
<td>39.6</td>
<td>22.8</td>
<td>339.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>8.7</td>
<td>7.7</td>
<td>137.4</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>58.1</td>
<td>7.9</td>
<td>715.5</td>
</tr>
</tbody>
</table>


* Sources:
In addition to the EU, examples of regional agreements include, as shown in Table 4.2: NAFTA (which entered into force in early 1994); MERCOSUR; and ASEAN (for which more detail will be discussed below) (Baker, 1995; Department of Foreign Affairs & Trade, 1994b). Delors (1995: 723) has suggested that:

*Progress towards greater global economic integration requires the creation of intermediate regional blocs. When economies become intertwined, their operating rules need to be harmonised too, and this is more easily achieved by regional groupings than by a centralized worldwide process.*

The EU may provide an example for other supranational or intra-regional groupings, as the EU has already made substantial progress along this path (Delors, 1995).

### Table 4.2. Intra-Regional National Trade Agreements and Groupings

<table>
<thead>
<tr>
<th>Regional Grouping</th>
<th>Member Nations</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (EU)</td>
<td>Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy,</td>
</tr>
<tr>
<td></td>
<td>Luxembourg, the Netherlands, Portugal, Spain, Sweden, United Kingdom</td>
</tr>
<tr>
<td>North American Free Trade Agreement (NAFTA)</td>
<td>USA, Canada and Mexico</td>
</tr>
<tr>
<td>Common Market of the Southern Cone (MERCOSUR)</td>
<td>Argentina, Brazil, Paraguay and Uruguay</td>
</tr>
<tr>
<td>Association of South-East Asian Nations (ASEAN)</td>
<td>Indonesia, the Philippines, Malaysia, Thailand, Singapore, Brunei and Vietnam.</td>
</tr>
<tr>
<td></td>
<td>Myanmar and Cambodia could join within the next two years.</td>
</tr>
<tr>
<td>Asia Pacific Economic Co-operation (APEC)</td>
<td>ASEAN members and USA, Canada, Mexico, Chile, Australia, New Zealand, Japan,</td>
</tr>
<tr>
<td></td>
<td>the Republic of Korea, the People's Republic of China, Papua New Guinea,</td>
</tr>
<tr>
<td></td>
<td>Taiwan and Hong Kong.</td>
</tr>
</tbody>
</table>

*Taiwan and Hong Kong, are included as 'economies' only, due to Chinese sensitivity about their political status (McDougall, 1994). Russia, India, and many other countries have expressed interest in joining APEC (Yumiko, 1995).*
In addition to such intra-regional groupings, inter-regional connections (between two or more regional groupings) are increasing. For example, there has been increasing initiative, particularly by the EU, towards the introduction of a Trans-Atlantic Free Trade Agreement (TAFTA) which would link the EU and NAFTA (Motoi, 1995). Interest in the USA for such an agreement has been supported by writers such as Thurow (1992), who has predicted that international trade in the next century would be influenced significantly by the EU. Several Asian countries, including Singapore, Thailand and the Republic of Korea, have expressed interest in developing closer associations with or joining NAFTA (Bergsten, 1994).

Relations between the EU and Asian nations are also showing significant development. East Asia is the fastest growing export market for the EU, representing 18 per cent of non-EU export sales in 1994, an increase of 7 per cent from 1980. Hence, East Asia has overtaken the USA as the EU's largest export market. Concurrently, there is evidence of increased Asian investment in the EU, led by Japan and the Republic of Korea (Department of Foreign Affairs & Trade, 1994b; Ishikawa, 1990; Richardson, 1995). In March 1996 the first summit meeting of the EU and East Asia was held in Bangkok, Thailand, known as the Asia-Europe Meeting (ASEM). This meeting involved the heads of government of the 15 EU Member States, representatives of the European Commission, and the leaders of the 10 leading East Asian nations -- Japan, China, the Republic of Korea, Indonesia, Malaysia, the Philippines, Singapore, Vietnam, Brunei, and Thailand. The initiative for this summit emerged from recognition of the need to strengthen relationships between Asia and the EU. The theme for this summit was "Towards a new Asia-Europe partnership for greater growth".

It is anticipated that by 1997 or 1998, Australia and New Zealand will participate in ASEM, although an Australian request to attend the 1996 summit was vetoed by Malaysia (Baker, 1995; Richardson, 1995). Senior Thai officials expressed support for Malaysia's campaign to prevent Australian membership of the forum, although Singapore and Indonesia have offered support for Australia (Baker, 1996). During the 1996 summit, the case for inclusion of Australia and New Zealand in the EU-Asia
process was advocated by British Prime Minister John Major and Japanese Prime Minister Ryutaro Hashimoto (Turner, 1996). Although no substantive discussion occurred, it was agreed that the Asian countries would determine any additions to ASEM from their region. The summit discussed a number of proposals, including plans for an Asia-Europe business forum to be held in Paris in November 1996, and a meeting of ASEM economic ministers to be held in Japan in 1997. The next ASEM summit will be held in London in 1997 (European Union News, February/March 1996).

Supra-national groupings, even informal gatherings such as the ASEM summit, may lead to some extent of surrender of national sovereignty, as has been evidenced with respect to the EU (see Chapter 3). Such compromise of autonomy, however, is presumably balanced by benefits of co-operation. Discussions of sovereignty and supra-national groupings are particularly pertinent for Australia, as the nation seeks to manage a combination of strong European associations and an emerging Asia-Pacific identity (Terrill, 1987).

**Australia's Role in Regional Dynamics**

The federation of Australia is a large island continent (7.5 million square kilometres), located in the Asia Pacific region. As shown in Table 4.1, in 1995, Australia's gross domestic product was $US 306.8 billion (Australian Bureau of Statistics, 1996). Compound growth in GDP for the period 1986 to 1995 was 2.9 per cent (Jackson, 1994). The national Australian population is over 18 million people, with high urbanisation in the state and territory capital cities (Australian Bureau of Statistics, 1995). Australia has strong historical and cultural ties with Europe, but is geographically located as part of the larger Asia-Pacific region with strong and increasing cultural and business interconnections. As the former Australian Foreign Minister, Gareth Evans (cited in Baker, 1995: 8), has stated "We're obviously straddling both cultures."

The Australian political system remains strongly influenced by the United Kingdom.
In 1900 the Australian Constitution was enacted and on January 1, 1901, a federal system of government was introduced. This federal system shares political power between the central federal government, six states and two territories. The legislative powers of the federal government cover areas such as: foreign affairs, defence, and customs and excise. The state governments have the power to legislate in many areas, such as education and occupational health and safety. The majority of legislative powers are shared by state and federal governments in some form (Australia's Constitution, 1995; Parkin, Summers & Woodward, 1994).

Australia is not only a member of the British Commonwealth but has as its titular head the Queen of England; a situation which has been increasingly questioned in debate surrounding moves towards Australian republicanism (Galligan, 1995; Winterton, 1994). While a variety of definitions of republicanism have been offered over past centuries, the essential element of modern republicanism is popular sovereignty:

A republic is a state based upon popular sovereignty, in which all public offices are held by persons deriving their authority from the people, either through election by the people or appointment by officers themselves by the people (Winterton, 1994: 39).

The Australian Constitutional system encompasses a range of fundamental principles including representative government, federalism, independence of the judiciary, judicial review of the validity of legislation, and responsible government under the Crown (monarchy) (Australia's Constitution, 1995; Winterton, 1994). Only the last aspect would change with the introduction of a republican system (Galligan, 1995; Winterton, 1994). Hence, an interesting contrast can be drawn between the United Kingdom's reluctance to relinquish national sovereignty and autonomy to the EU, and Australian republicanism as a concerted effort to establish national sovereignty and autonomy, separated from the monarchy of the United Kingdom (Galligan, 1995).

Modern Australian republicanism can be traced to the early 1960s (Dutton, 1977; Horne, 1992). Factors supporting the republican argument include: the need for development of the Australian national identity; preference for an Australian citizen.
to be head of state; preference for elected public officials over position based on the heredity principle (particularly a titular head residing outside the country); notions of popular sovereignty (Galligan, 1995); and perception of the need for wider constitutional reform (Horne, 1992; Winterton, 1994). In addition to such arguments, the awareness that Britain has developed trade arrangements to its advantage from which Australia had been excluded; this has provided some impetus for the republican movement (Keneally, 1993).

Several recent events have contributed significantly to the development of Australian republican support. First, the Australian Labor Party National Conference in June 1991 resolved that Australia should become a republic by 2001. Second, in August 1991 the Australian Republican Movement was launched; a group of prominent Australians who stated that Australia should be a republic by January 1, 2001, the centenary of the proclamation of the Australian federation (Horne, 1992; Keneally, 1993). Third, former Prime Minister Paul Keating adopted the republican cause in his election policy speech of February 1993, and established a Republic Advisory Committee in April 1993 to outline the minimum constitutional amendments required to achieve an Australian republic (Republic Advisory Committee, 1993; Winterton, 1994). The conservative Howard government which was elected in March 1996 has committed to holding a series of national conventions on the issue of the republic.

There are emerging calls within Australia for a 'new federalism', with increased harmonisation of state legislation and practices. In several aspects, Australia appears to have as many differences between member states as does the EU. The obstacles to economic and political reform in Australia are of course much less complex than in the EU, although the EU could be expected to provide some useful examples, at both a macro-economic level and at enterprise level, for Australia.

From Australian federation in 1901 until the 1970s, Australian government trade policies were largely protectionist. The principal policies which had been developed in order to unite the six separate and autonomous states at the time of federation included: restrictive immigration, protection of domestic industry through tariffs and
import restrictions, and conciliation and arbitration of wages and industrial disputes (Brooks, 1995; Jiro, 1995; Parkin et al., 1994). The relatively small domestic Australian market and the imperatives of international competitive advantage have led to increased international business activity by Australian enterprises, supported by the adoption of more outward-looking Australian government trade policies (Parkin et al., 1994). In Australia, global developments have increased attention on international business (Australian Bureau of Industry Economics, 1995a; Department of Foreign Affairs and Trade, 1992; Marsh, 1994; Yetton, Davis & Swan, 1992). The European region continues to represent an arena of major international business focus for Australia (Australian Bureau of Statistics, 1994b; Davison, 1991). In February 1996, it was announced that negotiations would commence for an umbrella treaty to strengthen political and trade relations between Australia and the EU. Officials have stated that such a treaty is expected to lead to a reduction in regulatory and administrative barriers for Australian goods sold in the EU, largely due to EU recognition of Australian product testing procedures (The Australian, February 14, 1996). It is undeniable, however, that the Asia-Pacific region has gained in strategic importance for Australian participation in international business (Australian Bureau of Statistics, 1994b; Department of Foreign Affairs & Trade, 1994b). Indeed, the economic transactions of Australia within the Asia-Pacific region have increased markedly since the 1960s (Jiro, 1995).

One aspect of significance in the debate surrounding modern Australian republicanism is that it reflects the recent increasing national awareness of the importance of Asian geographic positioning vis-à-vis European cultural heritage. In Australia, a significant shift in focus from the European region towards the Asia-Pacific region has been prompted by economic necessity (Australian Bureau of Statistics, 1994b; 1995c) and demographic change within Australia, including considerable increase in Asian immigration over the past two decades (Australian Bureau of Statistics, 1994c; Clark, 1995). The importance of the Asia-Pacific region for Australia is evidenced in strengthening trade relationships (Australian Bureau of Statistics; 1995c; Department of Foreign Affairs & Trade, 1992, 1994c; Lacznia, Pecotich & Spadaccini, 1994; Tongzon, 1995). The Closer Economic Relations Agreement (CER) between
Australia and New Zealand, which provides for substantial harmonisation of competition policies, is, as yet, the only comprehensive free trade agreement that Australia has made (Elek, 1994; Jiro, 1995). Australia does, however, have important trading relationships with the Association of South-East Asian Nations (ASEAN, which was formed in 1967) (Baker, 1995). In January 1992, ASEAN leaders agreed to develop initiatives towards an ASEAN Free Trade Area (AFTA), which is to be formed within fifteen years (Akrasanee & Stifel, 1994; Department of Foreign Affairs & Trade, 1994a).

Australia's involvement in the Asia Pacific region has been strengthened by the establishment in 1989 of the Asia Pacific Economic Co-operation (APEC) (Elek, 1991; Garnaut, Drysdale & Kunkel, 1994; Motoi, 1995). The first APEC ministerial meeting was held in Canberra Australia following a proposal by former Australian Prime Minister Bob Hawke to create a system of consultation and intergovernmental meetings to discuss economic issues in the Asia-Pacific region.

In contrast to the EU, APEC members are largely island or peninsular nations, with great diversity of economic development and industrialisation, social, religious, political and cultural contexts. The APEC grouping, not surprisingly, is less cohesive than the EU (Trood & McNamara, 1994). The major aims of APEC are: the provision of a forum for discussion and development of regional trade; lobbying for multilateral trade liberalisation; and identification of specific areas for co-operation (Garnaut et al., 1994). Dowling (1994) has observed, for example, that there are significant opportunities for co-operation between APEC countries to develop policies with regard to human resource development. In particular, large enterprises from industrialized economies could participate in an exchange program by accepting managers and HR practitioners from small and medium sized enterprises in newly industrialising countries for short-term assignments to maximise transfer of the experience and skills of larger enterprises. Such regional co-operation would conceivably influence human resource development policies in MNEs in Australia and across the region. APEC operates on consensus-based management, as decisions are based not on majority vote but on the principle of full consensus amongst members.
APEC is, however, a forum without legally binding mechanisms.

At the November 1994 APEC meeting in Indonesia, the Bogor Declaration was developed. This declaration emphasizes the two pillars of APEC: liberalization and facilitation of trade and investment; and development cooperation. The Bogor declaration constitutes an agreement by APEC's members to achieve regional liberalisation of trade and investment by the year 2020 for developing nations, and 2010 for industrialised nations (Department of Foreign Affairs & Trade, 1994a). This declaration is, however, more political than practical, as it contains little detail or guideline for the achievement of the cited goals (Motoi, 1995). There has been some scepticism and objection to this declaration, most noticeably by the Malaysian government, which has argued for gradual national liberalization, each country setting its own pace (Yumiko, 1995). In 1995, the APEC meeting was held in Osaka Japan. The major aim of this meeting was to develop and adopt an action agenda to provide the template for future APEC collaboration (http://apec.tokio.cp.jp/agenda/dec/html, 1995).

Continued success in international trade is related to inward and outward investment flows, as a national economy becomes more integrated with the global economy. This seems to be the case for Australia (Department of Foreign Affairs & Trade, 1994a). The fundamental objective of the Australian government's economic policy is to attain high and sustainable economic growth (Department of Foreign Affairs & Trade, 1994a). International competitiveness is viewed as a major component of this policy. The national trade priorities are shown in Table 4.3. It should be noted that the EU is considered under the third objective as an existing market for Australian trade.

Australia's stance on international trade is to respect the GATT/WTO (General Agreement on Tariffs and Trade, succeeded by the World Trade Organization) principles of multilateral free trade and most-favoured nation treatment (Department of Foreign Affairs & Trade, 1994a; Garnaut et al., 1994; Jiro, 1995). The successful conclusion of the Uruguay Round of GATT/WTO negotiations in 1994 has been an important reinforcement of the multilateral basis of global trade and international
The objectives of Australia's trade policy are:

- to encourage the emergence of fully open and fair markets globally and, through APEC, a dynamic, open, integrated market in the Asia Pacific region;
- to deepen and broaden Australia's economic links with East Asian economies;
- to strengthen Australia's position in existing markets;
- to position Australia to realise emerging market opportunities;
- to further diversify the export mix, particularly through increased exports of services and elaborately transformed manufactures;
- to protect Australia's interests in international treaty negotiations;
- to encourage greater participation of small-to-medium enterprises in the national export effort; and
- to accelerate the international orientation of the Australian economy.


**Implications of European Integration for Multinational Enterprises**

There are many implications of legislative and institutional developments brought by regional integration in the EU for MNEs (Almor & Hirsch, 1995; Calingaert, 1993; Devinney & Hightower, 1991; Dunning and Robson, 1988; Scarperlanda, 1992), even though MNEs were not the original target of instruments of business policy in the Treaty of Rome (Dunning and Robson, 1988). The Treaty of Rome may be viewed as essentially free trade in inspiration, with provisions affecting business designed to promote market neutrality and to prevent the abuse of economic power. However, in 1973, the enunciation of the European Commission's Action Programme raised the specific question of a policy aimed towards foreign MNEs operating in Europe (Dunning & Robson, 1988). These firms responded with complaints that the Commission's attitude towards them was adversarial; for European producers, the Single European Market program has led to the sustained recognition of the need to improve their international competitiveness, particularly against U.S. and Asian rivals (Millington & Bayliss, 1990; Sharp, 1990). Intensified competition resulting from EU integration was argued to be likely to enhance the economic and social welfare of EU citizens and EU enterprises (Cecchini, 1988).
The impact of the EU and Single European market has been substantial for MNEs based outside the EU. For MNEs in the U.S. and Japan, the impact of the Single European Market has been noteworthy (Almor & Hirsch, 1995; Magee, 1989; Melcher, 1988; Tully 1989). The impact of the Single European Market varies across industry, but the Single European Market has brought many changes due to the intensification of competition amongst MNEs (Barnard, 1992b; Daems, 1990; Dischamps, 1993; Dudley, 1989; Holland, 1993; Pitts, 1990). It has perhaps been most positive in technologically advanced sectors, such as consumer electronics, motor vehicles, and the communications sectors. The micro-economic effects which follow from the changes are lower prices and wider choices for the consumer. The producer should expect lower input costs, increased efficiency through economies of scale, a larger market and greater incentives to innovate. The macro-economic effects may be seen as more dramatic than the micro-economic. Integration of financial services should produce cheaper credit, with deflationary impact of lower costs. The progress towards the Single European Market stimulated interest in investment, including interest amongst Australian MNEs, particularly in the financial services, transport and communications sectors. Tully (1989) predicted that foreign enterprises would be able to break into protected national markets for the first time.

Challenges of operating in the Single European Market have included increased rivalry (based on cost or product specifications), increased buyer power as more options for obtaining goods and services become available, increased power of suppliers, as their distribution network may widen across national borders, and the entry of new competitors to the market (Almor & Hirsch, 1995). Costs associated with mistakes in decisions made by non-EU enterprises entering the EU market could be significant (Holstein, Mallory, King & Cuneo, 1988). Foreign enterprises have met with increasing competitiveness by European enterprises. Many European enterprises had, in the past, concentrated on national markets, rather than cross-border markets. More recently, a proliferation of cross-border alliances has created a new generation of European enterprises large enough to be competitive with the major U.S. and Japanese MNEs (Dunning & Robson, 1988; Millington & Bayliss, 1995). Also, as
internal EU barriers fell, there was some concern over the potential for "Fortress Europe" (Comes, Kapstein, Templeman and Weiner, 1988; Pitts, 1990). In the late 1980s, it was widely reported in business media (Roberts, 1988) that European enterprises had generally become more outward-looking with the threat of greater competition inherent in the single market. It was predicted that, once they solved their internal-EU marketing problems, there would be more interest and opportunity for joint ventures with non-EU MNEs.

An international study conducted by Korn/Ferry International and Columbia University (1989) surveyed 1,508 executives. Thirty per cent of the respondents to this survey were from Western Europe. Their awareness of the increasingly turbulent environment brought by European integration was evidenced by the finding that around 50 per cent of European respondents expected revenues to be derived from nondomestic business, reflecting the increase in global business and the integration within the European region. The report concluded that:

*European executives are the most internationally minded of all we polled. They are clearly concerned about the imminent liberalization of European trade and recognize that ... deregulation will lead to growth for some firms and mergers or insolvency for others* (Korn/Ferry International/Columbia University (1989: 27).

Although analysts as recently as the mid-1980s lamented 'Eurosclerosis' and stagnation at both macro and micro levels amongst European industry, it has been argued that the 1990s provide a major opportunity for European industry to improve competitiveness with other their key international competitors (Marsden, 1995; Tugendhat, 1985; Young, 1992). The economic and social impacts on participants such as MNEs based outside the EU have varied by industry and target market, although overall may be seen as representing an external shock requiring an appropriate strategic response. MNE responses to EU integration may be influenced by a variety of factors, such as firm size and strategic objectives, and involve a range of internal functions, including marketing and HRM (Almor & Hirsch, 1995; Department of Foreign Affairs & Trade, 1990b).
While Young (1992) has suggested that MNEs play an important role in European developments in the 1990s, particularly through restructuring of European MNEs and the development of pan-European business, a number of MNEs based in Japan and the US have expressed concern that EU integration will make it more difficult for them to sell into the EU market. Indeed, Almor & Hirsch (1995) have concluded that MNEs based outside the EU will be adversely affected in relative terms by EU integration, even if the EU does not adopt an approach of 'Fortress Europe'. Thurow (1993) argues that the EU members need to be 'glued' together, by economic and social gains not shared by outsiders. "To work, this economic glue must be a powerful glue, and it can only be powerful if there is a large gap between how insiders and outsiders are treated" (Thurow, 1993: 68).

**Implications of European Integration for Australian MNEs**

Several issues appear likely to be important for Australian MNEs seeking international markets. Laczniak et al. (1994) surveyed 189 senior managers in Australian enterprises with regard to their perceptions of the business environment towards the year 2000. The survey asked managers to indicate the importance of trends in technological, ecological, social, political, and economic areas. Overall, a range of predictions were made with regard to the need for contingency planning to be conducted by Australian managers, in order to improve international competitiveness. Of particular interest for the present study, most noteworthy amongst the social trends was that three of the four most commonly cited items related to education, ranging from concerns about preparing high school students for careers, to concern about the need for continuing education for management.

By the mid-1980s, several large Australian corporations had already moved to capitalise on the single market's potential (Clark, 1988a). Australian MNEs which realised the potential for expansion of their interests in Europe in the late 1980s include: Burns Philp, which moved into biotechnology and pharmaceutical manufacture; Hanimex, which increased the distribution of its Hanimex and Vivitar
cameras; Linfox which developed its distribution activities; and TNT, which opened a door-to-door parcel delivery system throughout the EU (Roberts, 1988).

For Australia, a key area of difficulty with respect to the European market has related to the Common Agricultural Policy (CAP). Hence, the prospect of an integrated European market was regarded with some scepticism. Despite reform of the CAP, Australia continues to face access barriers in the agricultural sector and with regard to commodities such as coal. A major focus of the Australian Government's trade policy in the EU is to encourage reform of the CAP to reduce market barriers, internal support prices and export subsidies (Department of Foreign Affairs & Trade, 1991b, 1994a).

The removal of internal trade barriers and integration of national markets in the EU has arguably enhanced opportunities for potential inter-organisational relationships (Elg & Johansson, 1995; Mayes, 1990). For MNEs based outside the EU, the establishment of relationships with local enterprises can be expected to provide significant opportunities. It has been suggested that Australian MNEs also operate in Europe with three noteworthy advantages: strength in areas such as transport and distribution, which were early beneficiaries of the single market; absence from potential European trade retaliation which the U.S. and Japan must face; and a large trade deficit with Europe, allowing more export potential (Clark, 1988b; Department of Foreign Affairs and Trade, 1990a, 1990b, 1990c).

As with all foreign investors in the European integrated market, however, Australian MNEs have faced uncertainties, such as slow progress in some key areas of regulation (and deregulation). Intensification of competition within the Single European Market could be expected to present a major challenge for Australian MNEs (Cook, 1989; Daems, 1990; Davison, 1991). There has been concern within Australia that management had, at least prior to unification of the market, taken insufficient measures to prepare for entry to the Single European Market (Business Council Bulletin, 1988; Department of Foreign Affairs & Trade, 1991a; Kestigian, 1991).
For many Australian enterprises, the Single European Market has been approached in the hope that trade in manufactured products and services would be facilitated by the unification, and that there would be investment opportunities such as Australian-EU joint ventures. Major Australian MNEs with an established presence in the EU could be expected to have revised their trading and investment strategies to maximise such opportunities. There is also some trend evident for Australian MNEs to build upon exporting activities to develop such inter-organisational networking partnerships involving at least one EU partner. Indeed, the development of networks and strategic alliances are arguably the most effective way for service exporters to develop international presence (Austrade, 1994a; Australian Bureau of Industry Economics, 1995b; Department of Foreign Affairs & Trade, 1991a; 1990b).

Several studies have investigated the patterns and performance of Australian enterprises in international markets (e.g., Department of Foreign Affairs & Trade, 1995; Marsh, 1994; Yetton, et al., 1992). The pattern of internationalisation for Australian manufacturing enterprises has reflected trends in other industrialized nations, including evidence of a high correlation between increasing firm size and internationalization (Marsh, 1994). Australian activity in international business has been predominantly in less tradeable sectors, such as building materials; food, drink and tobacco; and packaging and printing (Yetton et al., 1992). More recently, growth is evident in elaborately transformed manufactures in more highly tradeable sectors, such as aluminium. For Australia, there has been an historical dependence on primary industry and commodity trading, supported by protectionist government policies (Australian Manufacturing Council, 1994). There is, however, increasing emphasis on adding value by moving toward elaborately transformed manufacture and knowledge-based industries (Austrade, 1994a; Department of Foreign Affairs & Trade, 1994b). This is concomitant with increasing realisation that international competitiveness is instrumental to Australia's economic development.

For example, Yetton et al. (1992) found that successful Australian international manufacturing enterprises follow a pattern to capitalise on their competitive advantage through multidomestic strategies of producing in the countries of sale (Porter, 1986).
Hence, examples of Australian world competitive manufacturers have tended to be enterprises with extensive sales outside Australia but relatively little export from Australia. These enterprises have made the strategic choice to locate their production outside Australia. However, these authors do point out that these enterprises still export "invisibles" such management systems and proprietary technology, and estimate the contribution of such exports to reach around $US 1.14 billion per annum by the beginning of the next century (Yetton et al., 1992).

Discussion of Australian trade must recognise the important role of small and medium enterprises (SMEs). SMEs are central to Australia's economy. In Australia there are around 756,000 small and around 19,000 medium enterprises in the private non-agricultural sector. Leading SMEs are characterised by very high growth rates. It is estimated that there are around 4,500 international SMEs in Australia, defined as those SMEs dealing in international business, through activities such as exporting or international strategic networking (Department of Foreign Affairs & Trade, 1995). These international SMEs are estimated to generate around $US 5 billion in international turnover, growing at around $US 385 million per year. A recent survey of international SMEs investigated the reasons which precipitated their moves offshore. The main factors included: lack of domestic market opportunity; seeking economies of scales; personal contacts; inter-organisational alliances; new markets facilitated by technological change; approaches from overseas customers; and identification of marketing opportunities (Department of Foreign Affairs & Trade, 1995).

The Australian Government recognises the importance of bilateral trade and investment relationships with the EU (Department of Foreign Affairs & Trade, 1994a). Government assistance includes advice provided by the Australian Trade Commission (generally known as Austrade). Austrade provides services to

The Australian Bureau of Statistics defines SMEs by level of employment. In the manufacturing sector, a small business has fewer than 100 employees, and a medium enterprise has between 100 and 500 employees. In the service sector, a small enterprise has fewer than 20 employees and a medium enterprise has between 20 and 500 employees.
enterprises of all sizes, although small and medium sized exporters constitute 72 per cent of Austrade's clientele. Services include the provision of information and advice, practical assistance, and financial assistance through grants and loans. Austrade services are provided by an integrated network of offices around Australia and offices in over 50 countries (Twomey, 1995). In 1993-94, Austrade attended to around 100,000 enquiries, provided around 6,000 information and assistance services to 3,000 enterprises, and worked intensively with around 300 enterprises to improve their international business. More than 3,300 enterprises were granted financial assistance, largely from the Export Marketing Development Scheme. Austrade's extensive data base shows that Australian exporters are active in all geographic regions and across all industries (Twomey, 1995). In recognition of the size and affluence of the EU market, growth prospects and trade liberalisation, the Australian Government has suggested there are significant opportunities for Australian trade and investment in the EU (Cuthbert, 1991). An Australian Government priority in the EU is to provide information and support to enhance and facilitate opportunities for Australian enterprises (Department of Foreign Affairs & Trade, 1994a). Early in 1991, the Australian Government established the Business Advisory Group on Europe (BADGE), a high-level group of business representatives, to provide advice to Government on ways to improve Australian business performance in the EU (Department of Foreign Affairs & Trade, 1991a). Business groups, such as the 'Australian Council for Europe', have also been developed to encourage and facilitate relationships between Australian and EU business sectors.

**Trade between the European Union and Australia**

As noted earlier, the EU is Australia's largest economic partner when merchandise trade, trade-in-services and investment levels are combined (Department of Foreign Affairs & Trade, 1994a). The EU is Australia's second largest partner in terms of traded goods and the largest source of foreign investment (Department of Foreign Affairs & Trade, 1994b). Australia's share of worldwide outward foreign direct investment has increased, from around 0.5 per cent in 1980 to 1.5 per cent in 1992.
Australian foreign direct investment is comprised mainly of investment in enterprises registered overseas (corporate equities) and investment in overseas branches by Australian enterprises. During the 10 year period to 1991-92, the average level of investment per Australian enterprise investing abroad continued to increase (Australian Bureau of Industry Economics, 1995a). Foreign direct investment is one reflection of the increasing internationalisation of Australian business.

The destination of Australian direct investment abroad has changed significantly over the past two decades. During the 1980s there was consistent growth of Australian foreign direct investment stocks in the United Kingdom and the USA, so that these two countries are the most important host countries. By 1993, the United Kingdom and the USA accounted for over 50 per cent of total foreign direct investment stock for Australia. By comparison, Australian foreign direct investment in South-East Asian (ASEAN) countries in 1980 was nearly 30 per cent, but had declined to 8 per cent by 1993 (Australian Bureau of Industry Economics, 1995a).

A number of factors have contributed to the current pattern of Australian foreign direct investment. In particular, factors which have made ASEAN countries less attractive for foreign direct investment include: unsettled economic conditions in ASEAN countries compared with the United Kingdom and USA in the early to mid 1980s; the negative impact on foreign direct investment in some ASEAN countries (Department of Foreign Affairs & Trade, 1992; 1994c); and impediments such as poor infrastructure, lack of clear legal frameworks, and shortages of skilled labour. In addition, cultural, historical and commercial familiarity with the United Kingdom and USA made these countries relatively more attractive destinations for foreign direct investment (Australian Bureau of Industry Economics, 1995a).

The United Kingdom is the main host country for Australian foreign direct investment in the finance, property and business services industries, with 41 per cent of investment stocks in 1993. Similarly, the United Kingdom is the main host country for Australian foreign direct investment in the manufacturing sector, with 35 per cent of those stocks in 1993. As at June 1993, Australian enterprises held stocks valued at
$US 9.2 billion (28 per cent of total foreign direct investment stocks abroad) in the United Kingdom (Australian Bureau of Industry Economics, 1995a).

EU direct investment in Australia is dominated by the United Kingdom, followed by the Netherlands, Germany, and France. Similarly, Australia's investment in the EU is concentrated in the same four countries (Department of Foreign Affairs & Trade, 1994a). By June 1994 Australia had accumulated $US 22.7 billion in investment in the EU, 73% of this being in the United Kingdom. By contrast, Australian investment in the USA was $US 21 billion, in Japan $US 7.1 billion, and in ASEAN $US 4.0 billion. Of Australia's overseas investment, over 26% was located in the EU, 24.5% in the USA, 8.2% in Japan and 4.7% in ASEAN (Australian Bureau of Industry Economics, 1995a; 1994b).

Historically, Australia has acted as host country for significantly more investment from overseas than has been invested abroad by Australian enterprises, explained largely by the rapid population growth in Australia and opportunities provided to overseas MNEs by Australia's need to invest more in social and economic infrastructure than could be achieved through domestic savings (Australian Bureau of Industry Economics, 1995a). EU investment in Australia in 1994 was $US 7 billion, providing almost 50 per cent of Australia's total overseas capital source. This sum was almost 2.5 times the previous years' EU provision and 10 times that of 1991/2 (Australian Bureau of Statistics, 1994a). EU accumulated investment in Australia by 1994 was $US 63.4 billion. The largest portion of this ($US 44.9 billion) was sourced from the United Kingdom Australian Bureau of Statistics, 1994a). Growth in EU investment in Australia is evident when these figures are compared with figures for the late 1980s. In 1988-89, the EU was the largest source of investment for Australia. In that year (1988-89) the inflow of investment brought the official accumulated stock of EU investment in Australia to $US 52.8 billion (Department of Foreign Affairs & Trade, 1991a). British investors continue to hold the largest accumulation of investment in Australia, and a large proportion of their contribution is earnings retained in Australia from existing investments there. Further details of direct investment flows between Australia and the EU in 1992-93 are shown in Table 4.4.
Table 4.4. Foreign Direct Investment by Selected* EU Member States, 1992-93 (SUS million)

<table>
<thead>
<tr>
<th>EU Member State</th>
<th>Level of foreign investment in Australia at end of year</th>
<th>Level of Australian investment abroad at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium/Luxembourg</td>
<td>2,380</td>
<td>239</td>
</tr>
<tr>
<td>France</td>
<td>1,715</td>
<td>1,139</td>
</tr>
<tr>
<td>Germany</td>
<td>4,448</td>
<td>1,403</td>
</tr>
<tr>
<td>Greece</td>
<td>48</td>
<td>10</td>
</tr>
<tr>
<td>Ireland</td>
<td>70</td>
<td>419</td>
</tr>
<tr>
<td>Italy</td>
<td>482</td>
<td>775</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5,242</td>
<td>931</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>41,548</td>
<td>12,740</td>
</tr>
<tr>
<td>Other ECb</td>
<td>1,086</td>
<td>548</td>
</tr>
<tr>
<td>EC Total</td>
<td>57,019</td>
<td>18,205</td>
</tr>
</tbody>
</table>

* Those selected for inclusion here are the larger investment partners for Australia in the EU.

† Includes EC 12 members prior to 1995 only.


In the manufacturing sector, by far the largest and fastest growing industry group for outward Australian foreign direct investment over the period 1980 to 1992, is paper products and publishing, accounting for 42 per cent of outward foreign direct investment in manufacturing at June 1992 (Australian Bureau of Industry Economics, 1995a). For the 1980s, 64 per cent of outflows of Australian foreign direct investment were directed towards investments based in the service sector, compared with 18 and 17 per cent respectively invested in manufacturing and mining sectors (Australian Bureau of Industry Economics, 1995a).

Exports and Imports between the European Union and Australia

The EU is Australia's third-largest export market, behind Japan and other Northeast Asian nations (Republic of Korea, Taiwan, Hong Kong and China). As shown in Table 4.5, in 1993-94 exports from the EU to Australia were worth SUS 9,915 billion,
or 0.6 of total exports (Australia is the EU's 18th largest export market). The export figures represent an increase in exports from the EU to Australia of 0.9 per cent over the period 1989 to 1993. In 1993-94, imports to the EU from Australia were worth $US 5,173 million, or 0.4 of total imports to the EU (Australia is the 29th largest provider of imports to the EU) (Department of Foreign Affairs & Trade, 1994b).

<table>
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<tbody>
<tr>
<td>Austria</td>
<td>19</td>
<td>152</td>
</tr>
<tr>
<td>Belgium-Luxembourg</td>
<td>311</td>
<td>368</td>
</tr>
<tr>
<td>Denmark</td>
<td>43</td>
<td>204</td>
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<tr>
<td>Finland</td>
<td>80</td>
<td>315</td>
</tr>
<tr>
<td>France</td>
<td>539</td>
<td>1,049</td>
</tr>
<tr>
<td>Germany</td>
<td>684</td>
<td>2,556</td>
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<tr>
<td>Greece</td>
<td>17</td>
<td>35</td>
</tr>
<tr>
<td>Ireland</td>
<td>19</td>
<td>201</td>
</tr>
<tr>
<td>Italy</td>
<td>715</td>
<td>1,100</td>
</tr>
<tr>
<td>Netherlands</td>
<td>478</td>
<td>451</td>
</tr>
<tr>
<td>Portugal</td>
<td>18</td>
<td>45</td>
</tr>
<tr>
<td>Spain</td>
<td>182</td>
<td>196</td>
</tr>
<tr>
<td>Sweden</td>
<td>95</td>
<td>729</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,973</td>
<td>2,515</td>
</tr>
<tr>
<td>Total</td>
<td>5,173</td>
<td>9,915</td>
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Australia's major exports are in primary commodities, while EU imports in Australia cover a wide range of manufactures. Growth in exports has been concentrated in elaborately transformed manufactures (Department of Foreign Affairs & Trade, 1994b). Around 20% of Australia's exports of elaborately transformed manufactures are to the EU (Australian Bureau of Statistics, 1995c). Details of merchandise exports and imports between Australia and the EU are shown in Figures 4.1 and 4.2.
Figure 4.1. Australia’s Merchandise Exports to the European Union

Note: Figures are percentages of total.

Figure 4.2. Australia’s Merchandise Imports from the European Union

Note: Figures are percentages of total.
Trade in services is increasing, particularly in tourism, and is a significant proportion of total exports from Australia to the EU (Australian Bureau of Statistics, 1994d). As Flynn (1995) has outlined, Australian exports to the EU are now subject to only one customs entry procedure, with disparities between Member States' treatment of Australian exports effectively removed. In services, the EU is Australia's largest trading partner (Austrade, 1994a). Two-way trade in 1993 totalled $US 5.6 billion, or just over 23 per cent of Australia's total trade in services. In 1992-93, Australia's largest services surplus was recorded with Japan ($US 808 million), and the largest services deficits were recorded with the United Kingdom ($A 1,317 million), the USA ($US 642 million) and other European Community countries ($US 581 million) (Australian Bureau of Statistics, 1994d).

**Implications of the EU Social Dimension**

**The European Union Industrial Relations Context**

An important issue for MNEs operating in the EU relates to the extent (or event) of changes to national industrial relations frameworks as a result of European integration (Donnelly & Rees, 1995; Gospel, 1992; Hildebrandt & Schmidt, 1995). In a fully developed form, the European social dimension could lead to the development of a European industrial relations framework which is above, yet interacting with, national systems already in place. The possibility of established industrial relations systems being rearranged by EU-level initiatives has generated considerable anxieties and worries (Ferner & Hyman, 1992; Grahl & Teague, 1992; Hyman, 1995; Hyman & Ferner, 1994; Marginson & Sisson, 1994). By the late 1980s, it was generally accepted that employers within the EU had developed strong awareness of the Single European Market program, although responses from trade unions were fairly

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17 The service sector currently accounts for around 70 per cent of Australia's Gross Domestic Product and employs around 80 per cent of Australia's part-time workforce (Australian Bureau of Statistics, 1994c).
truncated. As Lodge (1989: 312) suggested:

unions even in multinationals have so far failed to mobilise
themselves on a cross-national, national or EC basis... Yet, the social
dimension to the SEM patently addresses issues central to them:
wages, employment, the working environment, social dumping and
standards - in short, key topics in industrial relations.

The development of the draft Social Charter showed some evidence of a process of
informal consensus-building between labour and management (Andersen & Eliassen,
(1991) has argued that labour's weak economic and political position in the late 1980s
and early 1990s, particularly at the national level, prevented ETUC and the member
confederations from gaining support for their version of the Social Charter. Silvia saw
this as being due to ETUC's lack of power to deliver industrial action or electoral aid
for national governments. Springer (1989) has suggested that trade unions in the EU
towards the end of the 1980s were more moderate than they were in the 1970s and
early 1980s.

European integration was, overall, considered more favourably by EU enterprises than
by the EU trade unions. In an attempt to appease the unions, the European
Commission released a document in September 1988 titled: "Social Dimension of the
Internal Market". However, issues such as worker consultation and participation were
virtually overlooked in this document. It also ignored union proposals for a shorter
working week to help reduce unemployment, and did not even mention plant closures
or retrenchments, two practices against which unions have sought more protection
(Springer, 1989). The European Commission document did, however, provide some
detail regarding standardisation of occupational health and safety and training policies.

European unions have sought standardisation of working conditions, including health-
and-safety rules and wage-and-hour regulations. Also, they have endeavoured to
achieve collective agreements at the European level on nonwage issues such as
information on technological change and retraining (Riemer and Schares, 1988).
Unemployment in the EU in 1994 was over 11%, higher than in the USA, Japan and the EFTA countries (Commission of the European Communities, 1994b; Flynn, 1995). Unions have expressed fears regarding the free movement of capital seeking lower costs (Erickson & Kuruvilla, 1994), evidenced, for example, by the investment boom in Spain. A major factor in this investment is that wages and benefits are lower in Spain than most of its neighbours and work rules are more flexible. Unions perceive this as a threat to hard-won bargaining power. Women have accounted for all or nearly all of labour force growth over the past 30 years in most parts of the EU. However, between 1990 and 1993, net job creation declined and many people disappeared from the workforce (Commission of the European Communities, 1994b).

At European level there exists no trade union, political or social power with an international agenda to counterbalance the strategies of MNEs. "There is no doubt that international management has a strategic advantage over (national) trade unions" (Blanpain, 1992: 20). It seems inevitable that national industrial relations systems will continue, in Europe and elsewhere. Even with the Maastricht Agreement, national systems "which are already divergent, will continue to be so, probably even more, due to over and above pronounced nationalisms, added decentralization (federalism), more overseas management operating locally and company culture, being of importance" (Blanpain, 1992: 20).

There has been considerable debate regarding the possibilities for convergence of national labour laws and industrial relations systems in EU member states. Bercusson (1995) has suggested that labour law in EU Member States will converge, driven by the institutional pressure of EU membership. To some extent, this convergence may also be attributable to the intertwinings of the single European market, and the interdependence of global markets. In contrast, Blanpain (1992) has argued that the national industrial relations system forms an integral part of the national cultural identity. These national systems are expected, therefore, to remain different with respect to content, although they may become "functionally more and more equivalent" (Blanpain, 1992: 22) as integration of the EU continues to develop.
In the EU, trade union responses to the challenges brought by MNEs include the growth of cross-national organization and the securing of information and consultation rights at European level in MNEs, related to the European Works Council directive (Gold & Hall, 1994; Hall, 1994; Marginson et al., 1995). While there have been a number of cases of plant or departmental closures in Belgium, the Netherlands and France, there have been fewer in Germany, where the works council system and worker representation on company boards offers some protection against such management action (Bean, 1994). Greater legal prescription of industrial relations in Germany would thus suggest there might be fewer threats to unions there than in the United Kingdom, for comparison. For Sweden, the strength of employer associations and unions, and their prominent roles in national industrial relations, would increase the likelihood of any large MNE to join the employer association and to recognize unions (Bean, 1994).

Implications of the EU Social Dimension for Australian MNEs

There has been substantial discussion in the literature over the impact of the social dimension for enterprises, particularly MNEs (Addison & Siebert, 1994; Hendry, 1994a, 1994b; Marginson & Sisson, 1994; Teague, 1994; Wood & Peccei, 1990). Opinions will continue to differ as to how much impact the social dimension will have (Addison & Siebert, 1992; 1994). From one perspective, the social dimension is argued to place cumbersome burdens on enterprises, thus leading to increases in unemployment and reduction of competitiveness (Addison & Siebert, 1992). From another perspective, it is argued that the dilution of many of the Commission's proposals ensures that the impact of the social dimension will be minimal (Streeck., 1993). These two views may be considered as opposing ends of a continuum which includes many intermediate views (Teague, 1994). The second extreme perspective, however, has been weakened by the Maastricht Treaty, which on several dimensions, has established means by which the passage of Directives related to the Social Dimension into EU law is more assured. Recognizing the importance of social and industrial systems to the EU, efforts to increase harmonisation in the EU social dimension can be expected to broaden, as was discussed in Chapter 3.
The European Commission appears to have as its goal a hybrid system which presents a compromise between federalism (with emphasis on supranational decision making) and intergovernmentalism (emphasizing decision making at national level) (Teague, 1994). This approach would allow for uniform EU-level policies to be developed, while maintaining national diversity of labour market institutions. Teague (1994) reports results of the Price Waterhouse Cranfield survey on European HRM, which found that most European human resource managers are largely unperturbed by EU-level developments in the social dimension. Concern reported by human resource managers with regard to development of EU social policy did vary by Member State; German managers expressed the least amount of concern, perhaps reflecting the fact that many EU proposals fall short of existing German national regulations (Teague, 1994). In several respects, the same situation would apply for Australian nationals. While the majority of human resource managers surveyed might perceive the EU as having a modest role in HRM matters, as their major focus remains at enterprise-level, the EU social dimension is broadly recognized as politically controversial.

Overall, EU measures aim to ensure that the EU's human resources are employed efficiently and, in particular, encourage the creation of worthwhile new employment opportunities. Such measures apply to Australian MNEs operating in the EU. For example, for human resources to be used effectively, recognition of professional qualifications is essential, and the mobility of workers between member states is important. The Institute of Personnel Management (United Kingdom) argues that, where EU level intervention is proposed, its purpose should be to provide guidance for action on issues which can only be resolved at EU level to achieve EU objectives. The Institute of Personnel Management argues further that intervention at EU level should be compatible with the objectives of creating a prosperous and competitive EU; of making a positive contribution to growth and the creation of new job opportunities; and of encouraging the efficient conduct of business operations (Institute of Personnel Management, 1989). Springer (1989) has suggested that changes which will have most impact will be economic or demographic developments rather than legislative. For example, enterprises may modify their perquisites and
benefit packages to match the increasing number of females in the workforce, or modify remuneration packages to suit new forms of work, or more flexible work arrangements (Bamber, 1990).

In the Korn/Ferry International/Columbia University (1989) study, major concerns for European executives which were pertinent to HRM included the key corporate challenge of the availability of qualified human resources and capital, and a predicted decline in union power, particularly evident in the United Kingdom and West Germany. The report recommended a number of actions for enterprises wishing to compete in the "new" environment. These recommendations included: a corporate culture to attract people with talents best suited to corporate goals; investment in recruitment, training and development; design of long-term compensation programs that encourage and reward achievement of corporate goals; monitoring the cadre of high potential executives; systematic development of these people, using functional rotations, transfers across business units, and executive education; implementation of an executive resources audit, based on firm-specific criteria and individual achievements; identification of critical areas of organizational deficiency and recruitment of executives who can preempt and correct these weaknesses; succession planning; and exploiting the board of directors' pool of knowledge and experience in human resources, assessment and planning (Korn/Ferry International/Columbia University, 1989). In sum, these recommendations are aligned with the conclusions drawn from more conceptual research related to HRM, and SIHRM (in MNEs), as will be discussed in Chapter 5.

There is a wide range of implications of EU integration for SIHRM in MNEs. Much of the focus has been on the impact for European enterprises and EU-based MNEs (Brewster & Hegewisch, 1994; Hendry, 1994a; Jones & Schröter, 1993). In addition, there has been consideration of the management implications of EU integration for MNEs based in the USA and Japan (Almor & Hirsch, 1995; Rugman & Verbeke, 1991; Ulman, Eichengreen & Dickens, 1993; Young, 1992), with some attention focused directly on SIHRM issues (Dowling, 1991). However, there has been much less attention paid to management and SIHRM implications of EU integration for
MNEs based in countries such as Australia.

For example, EU integration has led to larger enterprise size for European firms, as merger and acquisition activity has increased to take advantage of markets across national markets (Hamill, 1992; Hendry, 1994a; Rosenbloom, 1989). This presents a challenge, particularly for MNEs such as those in Australia, with comparatively smaller enterprise sizes (Department of Foreign Affairs & Trade, 1995). While the European Commission has sought to encourage SMEs with active policies, the SIHRM academic community has largely ignored the SME sector, focusing instead on larger MNEs with distinguishable functions and activities related to SIHRM (Hendry, 1994a).

EU integration has differential impacts on industry sectors (Commission of the European Communities, 1990e). As Australian MNEs in the EU operate across a range of industries (Craig & Yetton, 1994; Yetton, 1992), awareness of changes and influences at an industry level in the EU can be expected to be important considerations for Australian management. EU integration also has differential impacts across groups of employees (Hendry, 1994a). Professional employees, including scientific and technical specialists, graduate recruits, younger managers participating in development programs, and senior managers, have been suggested to experience greater intra-EU mobility with the market integration. In particular, current management development programs are targeting younger managers with the aim of overcoming the current perceived shortage of suitably qualified managers (Bournois, 1992; Bournois, Chauchat & Roussillon, 1994; Brewster & Hegewisch, 1994; Hendry, 1994a).

With regard to specific HRM functions such as training, the European Commission has adopted the position that skill development is primarily the responsibility of the EU Member States. The role of the Commission is restricted to encouraging the provision of basic skill levels with more even dispersion across the Union (Hendry, 1994a; Rainbird, 1993). It remains difficult to ascertain investment in training across the EU, as national systems vary widely in terms of payment by company or state,
which activities are considered to constitute training, and the way in which training costs are calculated (Larsen, 1994; Rainbird, 1993). For example, the United Kingdom has comparatively low wage levels and low rates of productivity, arguably reflecting lower levels of skills, training and industry capitalization (Bazen & Benhayoun, 1992; Hendry, 1994a; Rubery, 1992).

A survey of Australian business responses to the EU's Single Market Program was undertaken jointly by Australian Business in Europe and the Australian Trade Commission (Hodges, 1990). The key objective of this survey was to provide messages for Australian enterprises about strategies for maximisation of competitiveness in the EU. The results clearly indicate that Australian managers consider business opportunities in the EU are expanding. However, the survey also shows there is a need for more proactive strategic planning and greater involvement in the lobbying process which will enable enterprises to protect and develop their interests.

Overall, the results reflect a perception by Australian business that a key success factor will be a strong and sustained local presence in the EU. The survey included 104 Australian enterprises operating in the UK (64%), other EU countries (14%) and Australia (22%). Most were fairly small (40%) with a turnover in their EU host of less than $US 4 million, though parent enterprises in Australia were often quite large, with annual turnover exceeding $US 395 million (48%). When asked about their awareness of EU laws, the only substantial worry was the prospect of increased worker/social rights. With regard to the consequences of 1992, the greatest concern was the possibility of protectionism and increased competitiveness of EU enterprises. Most saw EU enterprises becoming more competitive, and expected merger and acquisition activity to increase. Perhaps these results reflect some lack of awareness in some quarters of Australian business regarding the EU. Further, the concern regarding worker and social rights might be reflective of findings of recent studies which have indicated that many Australian enterprises are in a period of transition and change with respect to management issues, and, more particularly, with respect to HRM issues (Collins, 1994a, 1994b).
The changes brought by the Single European Market, at regional, national, industry, and enterprise levels, require responses related to HRM. These responses may be at institutional level or enterprise level. One major issue is that of skill development, for managerial and non-managerial employees, as requisites for the achievement of outcomes of quality improvement, functional flexibility, and organizational learning. For example, for Australian MNEs seeking to compete on a basis of high quality and productivity, managerial responses will be paramount in efforts for success in the EU. As Flynn (1995) has suggested, the European Union and Australia are both highly dependent on attainment of the highest possible educational standards. Investment in education is viewed as critical to improvements in productivity and competitiveness. Similar to developments in the EU, Australian governments have introduced policies on improvement of past performance (Flynn, 1995; *Working Nation*, 1994).

Overall, the EU social dimension, with the Social Charter (Teague, 1993; Urwin, 1991) and the Social Protocol and Agreement of the Maastricht Treaty, provide the foundation for a new framework for participation of labour and management in the process of labour law at sovereign and EU levels (Addison & Siebert, 1992; Bercusson, 1992; Teague, 1993; Towers, 1992). As discussed in Chapter 3, developments in the social dimension and associated EU directives have been somewhat controversial (Bélier, 1995; Gold & Hall, 1994; Lecher, 1995; Wever, 1994). In this context, it is expected that Australian enterprises operating in the EU will have some concern about possible impacts of the EU social dimension upon their SIHRM strategies and practices.

**Australia: The Social Dimension**

An understanding of the challenges for Australian MNEs operating in the EU may be enhanced by some discussion of the Australian social context. A multitude of factors in the Australian domestic environment clearly influence the HRM strategies and practices of Australian enterprises. Australian industrial relations are distinctive by world standards, and have undergone dramatic change in recent years. Recent
developments in Australian management and the social dimension have been influenced by economic, social and political changes (Bamber and Whitehouse; 1992; De Cieri, 1994). Australia has experienced "increasing international competition, a decline in the nation's terms of trade, a growing current account deficit and chronic foreign debt" (Lansbury & Niland, 1994: 582). Noticeable change has taken place in the industrial relations sphere, with significant moves towards increased enterprise flexibility. Australian industrial relations are in transition towards a more decentralized approach, reinforced by legislative changes (Lansbury & Davis, 1992).

The Australian industrial relations system moved towards reform in the mid-1980s, when consensus emerged on the need for the system to focus more on facilitating enterprise productivity and flexibility in the workplace, rather than the traditional centralised system of arbitration (Bamber, 1990; MacIntosh, 1993). Micro-economic reform and structural changes in the Australian economy contributed to the need for Australian enterprises, particularly manufacturing enterprises, to be internationally competitive. This has brought a national emphasis on structural efficiency and international competitiveness, award restructuring, and changes in the roles and activities which manager and employees perform in their work. Decentralisation of the industrial relations systems towards enterprise bargaining is envisaged to be a major factor in the achievement of competitive advantage. Increasing awareness of the need for structural reform of the Australian economy has brought significant change to industrial relations.

The Keating Labor Government launched a comprehensive employment program emphasizing skill formation and active labour market assistance (Working Nation, 1994). A range of structural reform projects have been undertaken with the aim of removing barriers to competition and creating conditions to enhance the performance of Australian enterprises. These projects include recommendations of the Committee of Inquiry into National Competition Policy in Australia (known as the Hilmer Report, 1993). The Hilmer Report suggested comprehensive reviews and structural reforms, including the repeal of several government regulations viewed as impediments to market functions (unless the retention of these regulations is deemed to be in the
Like all national industrial relations systems, the Australian system developed as a result of historical events, with impetus strengthening from the 1880s onwards. A number of factors were instrumental in the development of the system: the development of the labour movement in trade unions and political parties, industrial strikes during the economic depression of the 1890s, an absence of effective mechanisms of collective bargaining, and an upsurge of liberal ideology which advocated the notion of state intervention to protect public interest. This led to the establishment of a centralised system of state-provided conciliation and arbitration (Deery & Plowman, 1991; Gardner & Palmer, 1992). There are several key parties involved in Australian industrial relations: federal and state governments; federal and state tribunals; trade unions and employees; and employers and employer associations.

Conciliation refers to a conference of the involved parties which aims to achieve consensus. Where this fails, arbitration provides a judgement on the disputed issues. Dispute resolution, which refers to the procedures aimed at establishing agreement between management and employees on terms and conditions of work, is a major aspect of any industrial relations system (Schuler, Dowling, Smart & Huber, 1992a). The Constitution of the Commonwealth of Australia and associated legislation encouraged state-provided conciliation and arbitration. Indeed, at the core of the arbitral system are the state and federal tribunals, which were established to settle industrial disputes and to determine employment standards. This is in contrast to many countries, including the USA where dispute resolution is conducted through a process of collective bargaining. The arbitral system extended to the development of national standards in matters such as hours of work and wages. This process included national wage cases, which provided the mechanism for national wages policy to be implemented (Gardner & Palmer, 1992).

The Conciliation and Arbitration Act 1904 established the Commonwealth Court of Conciliation and Arbitration. The Act has been amended many times, sometimes with
major changes. In 1988, following the 1985 Report of the Committee of Review into Australian Industrial Relations Law and Systems (known as the Hancock Report), the Conciliation and Arbitration Act 1904 was repealed. The Industrial Relations Act 1988 established the Australian Industrial Relations Commission, the major federal tribunal. The Federal Court of Australia has responsibility for judicial matters including award interpretation and enforcement and the Arbitration Inspectorate is responsible for ensuring that specified conditions are met in workplaces (Deery & Plowman, 1991).

Following persistent calls for industrial relations reform, the Keating government introduced the Industrial Relations Reform Act 1993, which took effect on March 30 1994. The Act facilitates "plant and enterprise-level non-union agreements, providing employers with further opportunity to negotiate more flexible workplace conditions with workers" (Kelly, 1994: 141). The main areas of reform introduced by the Act relate to unfair dismissal and termination of employment; a review of the award-based compulsory arbitration system; a revision and enhancement of the enterprise bargaining provisions of existing legislation; a review of legislative systems regulating industrial action and secondary boycotts; the creation of an Industrial Relations Court of Australia; and miscellaneous amendments to give effect to major provisions of the Act (Naughton, 1994; Reitano, 1994). Employees now have access to new minimum standards based on International Labour Organization Conventions (Lansbury & Niland, 1994). Ongoing moves have been made to amend provisions of this Act, predominantly in response to a sustained campaign of protest and criticism by employer bodies. Many other industrial relations commentators (e.g. Sloan, 1994) have been highly critical of aspects of the Act. The issue of industrial relations is one of the reasons for the defeat of the Keating government in the March 1996 election.

Australian state governments have utilised their power to legislate for substantive changes to industrial relations matters, such that the state systems now vary with respect to their structures and procedures (Deery & Plowman, 1991). In 1993, several state governments directed their efforts towards marginalising trade unions. For example, the government of the state of Victoria has introduced legislation to
remove state awards, encourage individual employment contracts, constrict union rights, and remove several penalty allowances and compensation for working beyond what was previously seen as "normal hours" (Kelly, 1994; Mitchell, 1993).

The industrial relations system was thus developed as a structure in "which the State imposed union recognition on employers but limited the role of unions to seeking improving in 'industrial' matters" (Lansbury & Niland, 1994: 583). Trade unions in Australia gain 'coverage' by registering under either state or federal legislation, thus obtaining the right to represent workers who are union members. Employers then negotiate with the union. Union co-ordination exists at the state level through Trades and Labour Councils and at the federal level through the Australian Council of Trade Unions (ACTU). The industrial demands of trade unions in Australia have typically centred on improvements in work hours, wages, leave provisions, and physical work conditions. (Deery & Plowman, 1991; Schuler et al., 1992a).

There have been considerable changes and challenges for trade unions in Australia over the past decade. The proportion of employees who are trade union members has fallen from 49 per cent in 1982 to 37.9 per cent in 1994 (Australian Bureau of Statistics, 1994e). Figure 4.3 compares trade union density in Australia with EU Member States. While these statistics show quite a lot of variation between nations, a common trend of union density decline is evident across many industrialized nations (Groot & van den Berg, 1994). Several factors have contributed to the decline in union membership: changes in workforce structure (e.g. redundancies) and increasing levels of unemployment; government and employer tactics to constrain workers' access to unions; a shift in employment to the traditionally under-unionised service sectors; shifts towards part-time, casual and contract labour, all less likely than full-

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18 The use of the term "award" is peculiar to the Australian industrial relations system. Awards are statutory, legally enforceable documents which specify terms and conditions of work, such as pay rates, job classifications, work hours, holiday and sick leave entitlements. They may also include matters such as occupational health and safety standards and dispute settlement procedures. They may apply to a particular enterprise, occupation, or industry (Curtain & Mathews, 1990).
time employees to join unions; certain groups, such as women employed part-time and workers from non-English speaking backgrounds, entering the workforce in greater numbers with less propensity to unionise. In addition, political and economic factors, such as changing state governments, economic recession, and imperatives of cost-cutting and competitiveness for enterprises have all contributed to weaken or marginalise trade union power (Groot & van den Berg, 1994; Kelly, 1994; Lansbury & Niland, 1994).

Unions have made efforts to increase the services offered to members, and to meet the needs of members experiencing redundancy, dismissal and intensification of work processes. Many trade unions have or are in the process of amalgamation and/or rationalisation, such that smaller unions which were based on occupational groups are joining together to form new, larger unions, based on industry. This process is intended to enhance the security of unions and facilitate industrial relations for employers, by eliminating demarcation issues (Kelly, 1994).

The Australian industrial relations system is now set on a definite path towards increasing enterprise bargaining (Naughton, 1994). Major developments have included substantial innovation in wages policy, structural reforms in the union movement (including union amalgamations), new training and industry policies, a focus on workplace reforms, and commitment to enterprise bargaining and continuing decentralisation of the determination of wages and work conditions (Gardner & Palmer, 1992; Kelly, 1994). Over two thousand federal agreements have been registered, in most cases specific to plants or enterprises, with a parent award providing minimum conditions. Enterprise agreements show an emphasis on productivity gains and cost reductions. One concern shown by unions with regard to enterprise agreements is that enterprise bargaining may exacerbate differences in conditions by disadvantaging employees with fewer bargaining skills or resources (Kelly, 1994). It is widely agreed that the system is moving towards an enterprise focus although there is substantial disagreement regarding the pace of reform. While some unionists find the pace uncomfortable, most employers would say the pace is slow to the point of being described as glacial.
Igrad United Kingdom
Sweden
Spain
Portugal
the Netherlands
Luxembourg
Italy
Ireland
Greece
Germany
France
Finland
Denmark
Belgium
Austria
Australia

Figure 4.3. Trade Union Density, Australia and the European Union

Notes:
a) Figures have been rounded. The trade union density rate refers to the number of trade union members as a per cent of wage and salary earners.


As the Australian industrial relations system moves away from a centralised system of decision making, an understanding of enterprise level relations and direct and informal management-employee relations, rather than indirect, formal relations, is increasingly important. A growing awareness of the importance of HRM is evident within Australian enterprises.

**Key Issues for Human Resource Management in Australian Enterprises**

As noted earlier, several key external issues have been investigated and identified as important for Australian enterprises (Laczniak et al., 1994). Several trends, such as increasing levels of international competition and changes in the industrial relations, have relevance for HRM (Bamber, 1993; Lansbury & Niland, 1994).

Several surveys of Australian enterprises have also identified changes endogenous to enterprises which have pertinence to HRM. For example, the Australian Workplace Industrial Relations Survey (AWIRS) surveyed 2,000 Australian workplaces and found that 84 per cent of these workplaces had experienced some form of change in the previous 12 months, including re-organization of management structures, organizational restructuring, and the introduction of new technology (Callus, Morehead, Cully, & Buchanan, 1991).

Collins (1994b) surveyed 796 private and public sector enterprises in Australia. While most of these enterprises were majority Australian-owned, 29 per cent of the sample were subsidiaries of MNEs operating in Australia. The majority of these enterprises reported that, over the previous two years, significant changes were made to corporate strategies (72 per cent), organizational structure (71 per cent), and corporate philosophy or values (53 per cent). With regard to strategic issues, three clear trends emerged: 51 per cent of the sample were returning to or placing more emphasis on core businesses; 68 per cent were placing greater emphasis on cost reduction; and 79 per cent were emphasising quality of goods and services.

Structural change is also evident in many Australian enterprises. Collins' (1994b)
finding of structural changes has been supported by Littler, Bramble and McDonald's (1994) survey of over 650 private and public sector enterprises in Australia. Littler et al. (1994) found that 57 per cent of his sample had reduced staff numbers in the previous 2 years. The most commonly cited reason for downsizing was "delayering" (44 per cent), with particular attention to reduction of middle management numbers. Two-thirds of the sample predicted that workloads and level of responsibility of the remaining middle managers would increase. Two-thirds also believed that contracting-out of functions and operations would continue to increase.

With regard to HRM, Collins' (1994b) survey identified elements of HRM which received increased attention over the last 3 years. The five HRM elements receiving greatest attention were: staff skills training; performance appraisal and counselling; identification of training & development needs; reviews/updating of job accountability statements; and management training and development.

Lansbury & Niland (1994) have provided further investigation of industrial relations and HRM issues in Australian enterprises. They interviewed senior IR/HR managers in 9 large Australian organizations, with regard to a range of issues identified by Kochan and his colleagues to be common in employment practices across many countries (Kochan, 1991, cited in Lansbury & Niland, 1994; Locke et al., 1995).

First, with regard to changes in work organization, teamwork was found to be a common objective, although progress was uneven. Employee involvement in decision making was associated with moves towards teamwork. Consultative committees have been used in some Australian organizations, sometimes required under provisions of award restructuring (Lansbury & Niland, 1994). These committees are, however, not common, as the AWIRS research found that only 14 per cent of workplaces, covering 40 per cent of the total workforce, had formed consultative arrangements (Callus et al., 1991).

Second, Lansbury & Niland (1994) investigated enterprise governance, or the means by which HRM policies are decided in the firm and the role of HR in strategic decision
making. The Labor government of the past 13 years has brought increased awareness of industrial democracy and employee participation issues. At the enterprise level, however, researchers such as Lansbury and Niland (1994) have found limited adoption of consultation processes and mechanisms. Callus et al. (1991: 135) concluded that: "in nearly three quarters of workplaces, unions were not consulted or even informed about organisational changes which would affect employees". Using the same (AWIRS) data, Lansbury and Marchington (1993) found that, while 14 per cent of workplaces had joint (employees and management) consultative committees, these committees did represent 30 per cent of all employees, as larger workplaces were more likely to establish consultative committees. Also, an increase in the presence of consultative committees had increased markedly in the previous 5 years. Only 7 per cent of workplaces, however, reported that they had worker representatives on the board of directors. Lansbury and Niland (1994) found that, for the enterprises in their study, unions played little or no role in strategic decision making. With regard to the role played by the HR function, results varied from an increased strategic role reported in some organizations, to a decrease in influence of the HRM function, as a result of devolution and decentralization over recent years (Lansbury & Niland, 1994).

Third, an increasing emphasis on skill formation, and training and development issues, was evident (Lansbury & Niland, 1994). Fundamentally, Australia has a deficient skill base. Evidence supporting this claim has been detailed in several major reviews conducted over the past decade (cf. ACTU/TDC, 1987; Curtain, 1988a, 1988b; Kane, Crawford & Abraham, 1994; Smith, 1993). The Australian Government has sought to promote skill formation through training opportunities as a major priority and a key feature of industrial relations changes. In 1993 (the most recent time of data collection), on average, employers in Australia spent 2.9 per cent of gross wages and salaries on formal training (Australian Bureau of Statistics, 1993). While there have been significant improvements in workplace training and training expenditure is reported to have increased, wide discrepancies remain between employers according to enterprise size and industry sector (Australian Bureau of Statistics, 1994f; Lansbury & Niland, 1994; Smith, 1993). Overall, skill deficiencies may be found across all levels of Australian enterprises. There has been much debate on this topic, but the
consensus appears to be that the level of training and development in Australia's corporations is low by international standards. To date, there has been a mismatch between the supply of skills and the demand for skills by enterprises operating in an international context.

One noticeable area which is in much need of improvement is the area of management training. A lack of management training encompassing areas such as an improved understanding of business innovation and research was identified by the ACTU/TDC (1987) study. Generally, Australian managers are less well educated than managers in many other industrialised nations. The Australian Department of Employment, Education and Training (1991, cited in Enterprising Nation, 1995) has estimated that only 20 per cent of senior managers in Australia have a first degree, compared with 63 per cent in Germany, 65 per cent in France, and 85 per cent in the USA. The Enterprising Nation (1995) report paints a somewhat more positive picture, but the fact of comparatively lower educational levels in Australia remain undeniable. For MNEs in particular, the need for skills required for international management, such as cross-cultural skills, have been highlighted (Enterprising Nation, 1995).

Fourth, employment security and staffing issues were found, as the nature of many employment contracts has changed as a result of external changes. These issues relate both to the structural changes noted by Littler et al. (1994) and to the increase in part-time, temporary and casual employment across Australian industry in the past decade (Blyton, 1992; Lansbury & Niland, 1994).

Finally, some changes have been introduced with respect to compensation and benefits; perhaps the most noticeable change has been the introduction of performance-related pay schemes (at least at senior organizational levels). Profit-sharing and other share-ownership schemes have not been widely used in Australian organizations (Callus et al., 1991; Lansbury & Niland, 1994). It appears that less progress has occurred in some areas of HRM than in others. Overall, Bamber (1993) has argued that in Australia, many claims with regard to the presence of strategic HRM are more rhetoric than reality.
Overall the Australian experience has suggested that external and internal changes have led to developments in HRM over recent years. It appears that a multitude of factors may be influential for strategies which are emerging in Australian enterprises attempting to improve productivity and competitiveness in a turbulent domestic and international environment. Australian MNEs operating in the EU must not only deal with the transitory domestic contextual conditions, but also with the complex and changing EU environment.

Summary

The international business and management implications of the Single European Market are complex and far-reaching. Opportunities and challenges are emerging at regional, national and enterprise levels. Of particular importance for Australian MNEs operating in the EU will be the changes wrought by the evolving social dimension. Australian MNEs with 13 years of experience with a social democratic government would encounter few surprises in the EU, compared with, for example, US MNEs. Australian MNEs have experience with state intervention in industrial matters and with strong trade union presence and activity. Overall, there is broad recognition that changes and new developments in management, and specifically in approaches to SIHRM, are required to deal with the new complexities of EU integration. The form and extent of such developments, however, remains to be delineated through further investigation.

Several challenges for MNEs have particular implications for SIHRM, as will be discussed further in the next Chapter. Australian MNEs in the EU can be expected to be challenged by many factors in the political, economic, and social environment. A requirement for management may be the need to be aware of environmental factors which may influence the endogenous strategies and practices of enterprises. With respect to the EU social dimension, it is arguable that utilization of appropriate SIHRM strategies and practices will enhance overall strategies and performance.
CHAPTER 5.
THE DEVELOPMENT OF STRATEGIC INTERNATIONAL HUMAN RESOURCE MANAGEMENT

Objectives of this Chapter

The objectives of this chapter are to describe and analyse the development of strategic international human resource management (SIHRM). In order to do so, a framework of SIHRM (Schuler et al., 1993), which posits relationships between factors external and internal to the enterprise, as well as HRM issues, functions, policies and practices is reviewed.

The emergence and development of SIHRM provide the focus for the present study, through review of major theoretical developments in the field of HRM. The globalization of business increases the requirement for an understanding, both academic and practical, of ways in which MNEs may operate most effectively now and in the future (Sundaram & Black, 1992). A major aspect of this understanding is based in the area of human resource management (HRM), and, in particular, SIHRM (Dowling, 1986; Dowling et al., 1994; Schuler et al., 1993).

The Context of International Business

As has been indicated in previous chapters, world markets are becoming increasingly competitive, dynamic, and inter-dependent. There are numerous theories which endeavour to explain the reasons for growth and entry of enterprises into multinational forms. Motives relate largely to economic variables, the seeking of firm-specific advantages and product life cycle (Bartlett & Ghoshal, 1992; Buckley & Casson,
For MNEs, prospects for operations in diverse market environments have increased. This has provided impetus for academics and practitioners alike to investigate the complexities of managing the aphorism 'think global, act local'. As previous writers have acknowledged, the temptation to extrapolate from extant knowledge, perhaps based on domestic market requirements must be overcome in order to manage the requirements of global markets (Adler & Bartholomew, 1992; Bartlett & Ghoshal, 1992; Buckley & Casson, 1976; Toyne, 1989). Differences between business in a domestic market and international markets exist at both conceptual and practical levels; MNEs have characteristics which differ significantly from domestic enterprises (Sundaram & Black, 1992). MNEs are the predominant form of international business organization and are "among the most powerful economic institutions yet produced by the capitalist system" (Dunning, 1981:3, cited in Bean, 1994: 187). MNEs are not homogeneous, as they differ with regard to size, utilization of technologies, and the extent of integration of international operations (Bean, 1994).

MNEs have been defined by Sundaram and Black (1992: 733) as:

\[
\text{any enterprise that carries out transactions in or between two sovereign entities, operating under a system of decision making that permits influence over resources and capabilities, where the transactions are subject to influence by factors exogenous to the home country environment of the enterprise.}
\]

Further, Bartlett and Ghoshal (1992) have identified transnational enterprises as having three major characteristics: substantial direct investment in foreign countries (typically around 25% of sales); active management of those operations; and those operations are integral parts of the enterprise both in strategic and in operational terms. Thus, transnational enterprises may be viewed as the most complex or
sophisticated form of multinational enterprise\(^{19}\). MNEs have some latitude in their selection of organizational form, strategies and practices (Bartlett & Ghoshal, 1992). For example, different HRM practices may be appropriate in the EU than in Australia. An MNE operating in both markets, however, must balance the potentially conflicting needs for differentiation across MNE units, and integration of these units (Lawrence & Lorsch, 1967).

Recent reviews of international management and international business research (e.g. Ricks, Toyne & Martinez, 1990; Wright & Ricks, 1994) have argued for a more integrative approach to investigation of the factors, processes and outcomes involved. This arguably necessitates an understanding of SIHRM issues, functions, policies and practices in the context of factors endogenous to the MNE, and exogenous factors (Kobrin, 1994; Schuler et al., 1993). Managerial imperatives associated with international business challenges and opportunities have been suggested to be critical to enterprise success, with the co-requisite for attracting, retaining and motivating the human resources required to implement a global strategy (Edström & Lorange, 1984). Consistent across organizational forms is the recognition that effective SIHRM is critical to success (Milliman, Von Glinow & Nathan, 1991; Schuler et al., 1993).

### The Foundations of Human Resource Management

Research in SIHRM emerged from the field of human resource management (HRM) (Dowling et al., 1994; Schuler et al., 1993). HRM may be defined as:

> ... the recognition of the importance of an organisation's workforce as vital human resources contributing to the goals of the organisation, and the utilisation of several functions and activities to ensure that they are used effectively and fairly for the benefit of the

\(^{19}\)Throughout this thesis, the term 'multinational enterprise (MNE)' is used as a generic title for all organizations identifiable by the various criteria offered by Sundaram & Black (1992) and Bartlett and Ghoshal (1992).
HRM recognises the importance of people in relation to financial and physical resources. It is assumed that this recognition will lead to improved utilisation of human resources, congruent with organisational strategy. In turn, this would be expected to lead to improved organisational effectiveness. HRM is based on an understanding of comprehensive policies which govern HR programs and practices (Butler, Ferris & Napier, 1991; Schuler, 1992). HRM involves a range of activities which may be arranged into five broad functions: planning for human resource needs; recruitment and selection of employees; performance appraisal and reward management; improvement of the quality of work life and work environment, and employee development; and establishment and maintenance of effective working relationships (Schuler et al., 1992a).

The study of HRM originated in the U.S.A., when Drucker (1954, cited in Gardner & Palmer, 1992) suggested that people, or human resources, should be viewed as 'human capital', or organizational assets, rather than costs. Several factors contributed to the rise of HRM as an organizational function. These include theoretical developments, societal and workforce demographic changes, increasing importance of management strategy; decline in trade union pressure, and economic influences (Dowling & Schuler, 1990; Guest, 1987; Storey, 1992a).

**Theoretical Perspectives of HRM**

The evolution of HRM research shows that the constellation of HRM functions are focused to some extent on the micro-level of individual phenomena and events. The disciplines of psychology and economics have been particularly influential with respect to theoretical and methodological developments in HRM research. Increasing recognition of the relationships between HRM functions and organizational strategy has led to a more macro-level orientation and the development of the field of strategic HRM (as will be discussed in more detail later in this chapter).
While much of the earlier research in the HRM field had an applied and empirical focus, there has been increasing attention to theoretical perspectives of HRM. Wright and McMahan (1992) point out that, in order to develop theory about HRM, it is necessary to identify the variables under investigation and their inter-relationships. Many mainstream HRM developments relate to a behavioural perspective of HRM. One of the earliest examples of the behavioural perspective is seen in the research by Miles and Snow (1984), who identified behaviours necessary for organizational strategy types. This approach was further developed in work by Schuler and Jackson (1987), as they focused to some extent on the inter-relationships between organizational strategy, HR practices, and employee role behaviours. Schuler and his colleagues (Jackson, Schuler & Rivero, 1989; Schuler, 1992; Schuler & Jackson, 1989) emphasized the need for HRM practices to be congruent and for them to be linked to the organizational strategy demands. This perspective assumes that organizational characteristics such as strategy lead to HRM practices which elicit certain employee role behaviours, which in turn lead to identifiable outcomes such as employee attitudes and organizational performance.

Numerous alternative theoretical perspectives have been advanced to contribute to the investigation of HRM. For example, the resource-based perspective of HRM, which aims to integrate micro-level HRM research with the macro-level resource-based view of the firm (Wright, McMahan and McWilliams, 1994). This perspective has been strongly influenced by organizational economics literature, and draws upon utility analysis research (e.g. Boudreau, 1988; Boudreau & Berger, 1985) which demonstrates the value of human resource programs in dollar terms. Taking this perspective, human resources are viewed as meeting the criteria for resources which are capable of providing sustained competitive advantage, as they are valuable, rare, inimitable, and non-substitutable. A resource-based view of strategic HRM argues that sources of competitive advantage may be found within the enterprise (as opposed to the enterprise's position in relation to competitors). This view suggests that enterprises have resources or capabilities that comprise strategic assets and contribute to competitive advantage (e.g. Rumelt, 1984; Schuler & MacMillan, 1984). Lado & Wilson (1994) have drawn on the theoretical contribution of this resource-based
perspective of HRM to investigate the manner in which HRM strategies and practices may facilitate the development and utilization of organizational competencies. This competency-based perspective of HRM is suggested to be complementary to the behavioural perspective of Schuler and Jackson (1987).

As Cappelli and Singh (1992: 179) argue, a relevant question for HR academics is "whether HR policies and practices can contribute to, indeed create, those crucial assets and resources". The most obvious HR resources are employees' knowledge, skills and abilities. The development of enterprise-specific skills or competencies, then, should provide a source of competitive advantage associated with human resources. Similarly, positive employee attitudes, or organizational commitment, may be an important source of competitive advantage. To extend this discussion to the level of national competitive advantage, it was noted in Chapter 4 that there are concerns in Australian government and industry regarding the competencies or skills of Australian management as a potential source of competitive advantage (Enterprising Nation, 1995).

A cybernetic perspective of HRM endeavours to explain the relationships between organizational strategy, HR practices, employee role behaviour and the HR capital pool. For example, Wright and Snell (1991) proposed that the inputs to an open system of HRM are employee competencies. The throughput process represents employee behaviours, and outputs are comprised of both affective or attitudinal outcomes and organizational outcomes. This perspective also emphasizes the need for consistency across HRM functions and alignment of these with organizational strategy, although allowing for fluidity and dynamism in the relationships between elements in the open system. Another approach is provided by the agency/transaction cost perspective of HRM, which examines transactions as a means of controlling employee behaviour. This perspective has been applied to strategic management research and is suggested to have some potential applicability for HRM (Wright & McMahan, 1992).

Not all theoretical perspectives of HRM can be considered to be strategic. Political-
influence and institutional perspectives are perhaps best considered as non-strategic perspectives, as they examine the effects of political and institutional factors on HRM practices. For example, Ferris and Judge (1991) have used a political influence perspective of HRM to systemically investigate several HRM areas, in opposition to the dominant "rational human resources" assumption which underlies many other perspectives of HRM (Bolman & Deal, 1991). A political influence perspective of HRM demonstrates the potential for non-rational, political, rather than strategic or technical concerns, to influence HRM functions such as performance appraisal. Similarly, an institutional perspective of HRM recognises that many "structures, programs, and practices in organizations attain legitimacy through the social construction of reality" (Wright & McMahan, 1992: 313), thus suggesting an interesting explanation for the continued use of ineffective HRM practices.

There are now numerous theoretical perspectives of HRM (Ferris & Judge, 1991; Wright and McMahan, 1992; Wright et al., 1994), although some have received more attention than have others. Reviews of theoretical perspectives which have endeavoured to identify determinants of HRM practices have shown evidence for complementarity between various perspectives (Wright & McMahan, 1992). Ferris and Judge (1991) concluded that most HRM theory and research has been micro-analytic in level of analysis (focusing on the individual) and unitary in perspective. These theoretical perspectives are by no means the only approaches to HRM. Ferris and Judge (1991) advocate the development of an integrative approach to HRM such that multiple perspectives may be incorporated. They argue that this would enable more comprehensive and richer understanding of the phenomena under investigation. Recognition of the complementarity of various perspectives, and taking an integrative approach towards conceptual understanding of HRM is arguably most valuable for further investigation in this field. Progress in conceptual understanding of HRM over the past two decades can be viewed graphically through conceptual frameworks which have been offered by a number of researchers in order to identify the elements of HRM.
Conceptual Frameworks of HRM

A conceptual framework of HRM, known as the Harvard framework, offered by Beer, Spector, Lawrence, Mills, & Walton (1984), has provided a foundation for many of the developments made in HRM research (Guest, 1987; Hendry & Pettigrew, 1990; Poole, 1990; Storey & Sisson, 1993). As shown in Figure 5.1, this framework recognises a wide range of stakeholder interests and contextual factors which influence HRM. HR policy choices are identified, relating to employee involvement, HR flows (including recruitment and selection, training and development, and performance management), reward systems, and work systems. HR functions and activities are seen as integrated as a system which is in turn integrated with the broader organizational strategy (Beer et al., 1984). It should be noted that this framework includes labor relations and work organization. According to the Harvard framework, HR policy choices result in outcomes of organizational commitment, competence and cost effectiveness, and in turn have long-term consequences for individuals, enterprises and society.

The dominant HRM model which has developed largely from this framework has four main features (Boxall & Dowling, 1990):

1. The main focus is the enterprise, or firm, as the unit of analysis.
2. People are viewed as social capital. HRM is seen as an investment in human capital.
3. A reciprocal fit between organizational strategy and human resource strategy is seen as crucial. The top level of management integrate HR policy and strategy.
4. HRM is also integrated with general, line management. There is still a role for HR specialists, although all managers are seen as responsible for HRM.

A strength of the Harvard framework is the acknowledgment of a broad range of contextual influences on strategic choice regarding HRM. While organizational strategy is viewed as important, it is no more nor less important than a number of other factors.
Although writing in the U.S. context, Beer et al. (1984: 35) noted the potential for comparative and international applications of their framework:

"... variations in HRM policies and practices across countries offer useful alternatives for U.S. managers to learn from. This comparative perspective allows managers to examine and question the ideology and assumptions that underlie their own HRM practices. Looking at what managers in other countries do can also suggest alternative models for integrating people and organizations."

The Harvard framework involves prescription for efficient and effective work practices and organizational commitment for employees. In doing so, it provides a normative approach to HRM (Boxall & Dowling, 1990). This framework and the concepts included in it have been discussed and debated to some extent (Blyton & Turnbull, 1992; Boxall, 1993; Guest, 1987; Hendry & Pettigrew, 1990; Salaman, 1992; Storey, 1995), resulting in a mixture of analysis and prescription for HRM academics and practitioners. The Harvard framework has provided a foundation for
substantial progress in HRM research and practice, and there has been substantial
development of partial theory and research, although less progress towards an
integrated theory at the level of the enterprise (Boxall, 1992; Sisson, 1990). Indeed,
Boxall (1992) criticises mainstream HRM literature for failing to rise above micro-
level and narrowly-focused theory. Perhaps as a result of this failure, an enduring
debate has evolved with regard to the meanings attached to HRM in both theory and
practice (see for example Purcell & Ahlstrand, 1994; Storey 1990, 1992a).

In the United Kingdom, an initial concern amongst academics in the HRM field was
to develop a unified concept or meaning of HRM (Brewster, 1994). Two important
contributions to the development of the Harvard framework have been provided by
provided an interpretation of the Harvard framework by defining HRM as one
management style in employment relations, with prescribed outcomes. Guest (1987:
503) argued that HRM is comprised of "a set of policies designed to maximise
organizational integration, employee commitment, flexibility and quality of work". In
contrast, Hendry & Pettigrew (1990) extended the analytical elements of the Harvard
framework and emphasised the need for approaches to HRM which recognise
contextual and processual elements, rather than attempting to provide prescription for
research and practice. The framework offered by Hendry and Pettigrew (1990) is
shown in Figure 5.2.

Recognising contributions such as those by Hendry and Pettigrew (1990), HRM is
often described as having emerged from personnel administration or personnel
management (Blyton & Turnbull, 1992), although in a broad sense the evolution may
be traced in parallel with the development of civilization (Bass, 1994). Differences
between HRM and personnel management have been well-documented. Storey
(1992a) identified 27 differences, although elsewhere simplifying this list to 25 (Storey
& Sisson, 1993), or even 15 differences (Storey, 1992b). In sum, it may be argued
that HRM is not simply a matter of systematic linkages between activities, but also
brings qualitative differences to those activities. Reviews of empirical studies of the
activities undertaken by HR managers indicate a wide range of challenges and issues.
faced in dealing with organizational strategy, environmental factors, and co-ordinating practices across HR functional areas (Fisher, 1989; Peck, 1994). Storey (1990) has drawn a distinction between 'hard' and 'soft' versions of HRM. Storey (1992a) suggests there may be several versions of HRM evident, with a 'weak-strong' dimension, showing degrees of qualitative differentiation from personnel administration, and an orthogonal dimension of 'soft-hard'. At the 'soft' end of the second dimension, emphasis is placed on the 'human' aspects, reflecting the emphasis of the human relations school; at the 'hard' end of the spectrum, emphasis is on 'resources', as items for rational use (Brewster, 1994).

Figure 5.2. Hendry & Pettigrew's Model of Strategic Change and HRM

Storey (1992a) suggests that the 'strong' version of HRM has received most attention, and may be viewed as epitomising the mainstream view of HRM. To summarise, this
version of HRM has four key characteristics. First, human capability and commitment are seen as crucial for organizational competitive advantage. Second, HRM is viewed as a matter of strategic importance, such that it is both influenced by and influences corporate strategic planning. Third, HRM is viewed as having long-term implications for the enterprise, so that line management must be directly involved. Fourth, tools such as clear communication, systematic deployment plans, and systems of performance evaluation and rewards are utilised to elicit not merely compliance but commitment (Guest, 1987; Legge, 1989; Morris, Lydka, & O'Greevy, 1993).

It is undeniable, as Legge (1989) has suggested, that the U.S. approach to HRM assumes a unitary frame of reference and has emphasised individualistic means of management-labour relations, with consistency of long-term goals between all the various stakeholders (Beer et al., 1984). It has been argued that this may stem more from its origins in a non-union context than from any inherent incompatibility with trade unions or forms of collective bargaining (Storey, 1992a). In contrast, researchers in the United Kingdom have taken rather a different view in suggesting that a unitaristic HRM model which attempts to marginalise the role of trade unions is infeasible and perhaps undesirable. As Guest (1987: 520) has suggested:

\[
\text{for many, the unitaristic implications of human resource management could only begin to have an appeal following a much more radical shift of ownership and control in industry.}
\]

Overall, HRM "appears torn between preaching the virtues of individualism and collectivism" (Legge, 1989: 35). Most writers recognise unitaristic origins (Guest, 1987; Storey, 1992a). In the evolution of HRM, however, there has been increasing emphasis on team work and on employees' commitment to the enterprise, which is represented not merely as the sum of individuals, but rather as an organic entity (Legge, 1989). Although Guest (1989) has surmised that HRM and trade unionism are incompatible, Storey and Sisson (1993) suggest that simultaneous handling of both individualistic and collective concerns will be likely to become an essential requirement for management in the 21st century.
Developments in Strategic Human Resource Management

Definitions of strategic HRM typically refer to the integration of the policies and practices of managing employees with an enterprise's strategic plan (Purcell, 1989; Purcell & Ahlstrand, 1994; Schuler, 1992). Schuler (1992) suggests that the concept of strategic HRM entails a more macro-level orientation and refers to the alignment of the 'five Ps' (philosophy, policies, programs, practices, and processes of HRM) in such a manner as to enhance strategic initiatives. Wright and McMahan (1992) have distinguished between HRM and strategic HRM, defining the latter as: "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals" (Wright & McMahan, 1992: 298).

There are, however, several models of strategic HRM (Sisson & Timperley, 1994), with important differences between them. Differences between these models relate particularly to the nature of integration between HR strategies (or policies) and practices, and organizational strategy. The emergent consideration of HRM in a strategic context paralleled and was influenced by the development of strategic management research and practice (Cappelli & Singh, 1992). It is interesting to note that both the concept of HRM and the concept of strategic management are problematic in definition and conception, with competing schools of thought (Boxall, 1992).

The field of strategic management has been strongly influenced by the work of Chandler (1962: 13), who defined strategy as "the determination of the basic long-term goals of an enterprise, and the adoption of courses of actions and the allocation of resources necessary for carrying out these goals". Chandler's (1962) study of U.S. enterprises identified organizational strategies associated with product markets as the guide for organizational structure and structural change. Similarly, Ansoff (1965)

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20 The terms 'HR strategies' and 'HR policies' are used interchangeably in the extant literature. As the former term appears to have been used more consistently by various authors, 'HR strategies' will be used in this thesis.
viewed strategy as analytical, rational and purposeful action towards goals. Chandler (1962) and Ansoff (1965) viewed strategy as referring to the relationship between an enterprise, its competitors, and markets. Further, it was argued that 'fit' between organizational strategy and organizational structure was a vital determinant of organizational performance (Chandler 1962; Galbraith & Nathanson, 1978). Since Chandler's seminal work, strategy has been conceptualised in a number of potentially conflicting ways by various researchers.

A prominent stream of strategic management research has been strongly influenced by the work of Porter (1980, 1985, 1986). Porter argued that strategic management involves analysis of an enterprise's position in relationship to external forces, and their use to build or maintain mobility barriers, to restrict competition and increase profits. The concept of competitive advantage is described by Porter (1980, 1985) as central to competitive strategy. Competitive advantage refers to those capabilities, relationships, resources, and decisions which allow an enterprise to maximise opportunities and minimise threats within its industry (Hofer & Schendel, 1978). Porter (1985) argued that HRM may enhance an enterprise's competitive advantage by lowering costs, increasing sources of product or service differentiation, or both. Further, Porter (1990) considered the role of the national environment for the competitive position of industries and firms.

Porter's work suggests that enterprises engage in overall, or generic, strategies. One approach is seen in work by Miles and Snow (1978, 1984), who identified three basic types of organizational strategic behaviour and supporting characteristics: defender, prospector, reactor and analyser. Another approach is seen in Porter's (1980) classification of generic strategies in terms of cost, differentiation or focus. It is recognised, however, that generic strategy comprises just one part of the strategic management process. More recently, a resource-based view of competitive advantage has been offered (McWilliams & Smart, 1993). This approach is more focused on the firm, in contrast with Porter's (1985) industry and environment focus. There remains, however, much debate regarding the specific financial, physical, or human resources which may be capable of providing sustained competitive advantage. The overall
process of analysis of the enterprise's competitive situation, development of strategic goals, development and implementation of plans and allocation of resources to enable achievement of these goals, requires complex interaction involving functional areas such as HRM.

Thus, organizational strategy is broadly defined by Purcell and Ahlstrand (1994) as those decisions with a long-term effect on enterprise behaviour; commitment of major resources; concerned with change, typically taken in uncertain environmental contexts; and involving a range of senior managers. Purcell and Ahlstrand (1994) suggest that strategy is associated with long-term decisions made at upper levels of an enterprise, distinguishable from operational activities. Strategic decisions involve more uncertainty than do operational activities; strategic decisions demand an integrated approach to management of an enterprise; and strategic decisions are likely to be concerned with change (Purcell & Ahlstrand, 1994).

Other researchers, such as Pettigrew (1977), have suggested that an approach based on Chandler's work has a limited view of strategy. Pettigrew (1977) emphasised the need for processual and incremental models of strategy formulation and implementation. Further, Storey and Sisson (1993) describe the management of strategy as an interactive process. As Mintzberg (1978) has shown, it is more appropriate to consider strategy formation (not formulation) as an iterative, complex, interactive process. According to Mintzberg (1978: 935), strategy is the "pattern in a stream of decisions". Mintzberg and Waters (1985) have argued that such patterns may be either emergent, constantly being adjusted or reviewed in accordance with ongoing experience; or deliberate, being both planned and implemented. It is suggested that the majority of organizational strategies have both emergent and deliberate aspects. As a consequence, organizational strategy is viewed as less certain and more evolutionary than was suggested by more "rational" approaches to strategic management. This alternative, decisional approach has become perhaps the most widely accepted in strategic management literature.

The relationship and possibility for reciprocity between organizational strategy and
human resource strategy has received much attention in recent years (Butler et al., 1991; Dyer, 1984; Guest, 1987; Lengnick-Hall & Lengnick-Hall, 1988; Tichy, Fombrun & Devanna, 1982; Wright & McMahan, 1992). Comprehensive and critical reviews of the developments in this literature have been provided by writers such as Boxall (1993), Boxall and Dowling (1990), Legge (1989) and Purcell and Ahlstrand (1994).

Several researchers have made efforts to identify determinants of human resource strategy (Dyer, 1984; Schuler, 1992; Tichy et al., 1982). It is well recognised that several factors would influence the emergence of HR strategy, although the two groups of factors most consistently recognised have been factors in the environment and organizational strategy21 (Dyer, 1984; Fombrun, 1982). Environmental factors such as demographic changes and technological innovation (Fombrun, 1982) have been shown to affect human resource strategy. For example, Maier (1982) considered specific environmental challenges and suggested specific organizational responses. Miller (1987) has suggested that the achievement of competitive advantage requires each business unit to tailor its HRM policy to its particular product-market conditions, ignoring HRM policies in other business units. This would assume that business units are market driven. Taking an extreme position, Miller (1987: 348) has suggested that:

*HRM cannot be conceptualised as a stand-alone corporate issue.
Strategically speaking it must flow from and be dependent upon the organization's (market oriented) corporate strategy.*

Lengnick-Hall and Lengnick-Hall (1988), however, suggest that a view of organizational strategy as responding to, rather than interacting with the environment, may lead to diminished organizational performance. As Miles, Snow, Meyer and Coleman (1978) have argued, a strategy which is not solely dependent upon environment factors, and may actually influence its environment, should be more effective for an enterprise. Further, HR strategies which may alter the enterprise's

21 The term 'organizational strategy' is used in a generic sense to refer to competitive strategy, corporate strategy or business strategy, as various authors appear to have used these terms interchangeably.
market position and thereby change the environmental contingencies would be seen to have a reciprocal relationship with environmental factors. While the thrust of mainstream HRM research has been to advocate the value of connecting HR strategy to environmental factors and organizational strategy, there are various conceptualisations of this connection.

Tichy et al. (1982) noted the role of organizational strategy in mediating the influence of the external environment on human resources strategy. Tichy et al. (1982) provided a framework of strategic HRM (shown in Figure 5.3) which identified a taxonomy of environmental pressures, organizational strategies and 'matching' HR practices to reinforce those strategies. This framework was presented by Devanna, Fombrun and Tichy (1984) along with a set of guidelines for HR practices. Their approach assumes a tight fit between HR strategy and organizational strategy. Indeed, these and several subsequent authors have argued that HRM strategies should 'fit' organizational strategy. Further, Devanna et al. (1984) suggested that HRM strategies should fit the enterprise's stage of life-cycle.

It has been argued (Legge, 1989) that integration or 'fit' between HRM and organizational strategy may be thought of as 'external', while integration or 'fit' between HRM functions and activities may be considered 'internal'. Legge (1989) suggests that a contradiction arises as fit between HRM and organizational strategy assumes a contingency approach to HRM policy, while fit or integration between HRM policies requires an absolutist approach. An emphasis on market requirements may lead employees to be treated as a variable input, as in a 'hard' version of HRM (Storey, 1992a; Legge, 1989). Alternatively, to change the organizational strategy from one of cost minimisation to one of quality enhancement may provide greater reconciliation between external and internal fit. Schuler (1989) has suggested that it is necessary to recognise that both internal matters, such as enterprise life-cycle and competitive strategy, and external pressures, such as labor markets, will influence HR practices. For example, enterprises may select HR practices not to match their organizational strategy but rather to match the strategies of other enterprises (DiMaggio & Powell, 1983).
Schuler & Jackson (1987) have taken an approach which matches HRM strategies to organizational strategy. Schuler (1989: 160) has suggested that: "Crucial to a firm's growth and survival is the ability to gain and retain competitive advantage", and argued that maximum competitive advantage is to be gained by matching HR practices with organizational strategy. This relationship may be based in part on recognition of problems associated with efforts to overcome inertia to change HR practices (Schuler & MacMillan, 1984). Schuler and Jackson (1987) adopted Porter's three competitive strategies: quality enhancement, innovation, and cost reduction, and applied them to human resource practices by identifying needed employee role behaviours for each organizational strategy. For example, an organizational strategy seeking quality enhancement as a source of competitive advantage would be expected to emphasise employee behaviours which display high commitment to organizational goals and concern for standards and processes. They recognise, however, that generic
strategies are not mutually exclusive (Hill, 1988). Enterprises may operate with a mixed, rather than a pure, organizational strategy.

Hence, Schuler and Jackson (1987) and Schuler (1989) suggest that enterprises may choose from a menu of HR practices, although it is critical to recognise that certain HR practices fit with each other. Other HR practices may be inconsistent, leading to role conflict or ambiguity. Schuler (1989: 171-172) argues that "organizational effectiveness is greater to the extent that conflicting cues and reinforcements do not exist for employees, that is, that "fits" exist". He also assumes that organizational effectiveness is a goal of most enterprises. Further, in support of Tichy et al. (1982), Schuler (1989) argues that applicability of the variety of possible fits between organizational strategy and HR practices is likely to be at least partially contingent upon the life-cycle stage of the enterprise. Life cycle stages identified in most strategic management and HRM literature include: entrepreneurial; growth; maturity; decline; and turn-around. Dowling & Schuler (1990) categorize these as entrepreneurial/growth; maturity/decline; and turn-around.

Schuler and Jackson (1989) and Jackson et al. (1989) present survey data which show a relationship between HR practices and organizational strategies. They also demonstrate that factors such as technology, industry sector, organizational structure, size and union presence will influence HR policies and practices. Similarly, Peck (1994) found that staffing policies are associated with organizational strategy. Miller (1991) has argued that the linkages between HRM and organizational strategy are poorly developed, as the development of HRM has lagged behind the development of strategy, although he recognises that HRM may be 'catching up' and that more developmental equality will enable more integrative advancement to be made.

The work by Schuler and colleagues (Jackson et al., 1989; Schuler & Jackson, 1987; Schuler, 1992) has provided empirical fieldwork testing of the approach to HRM labelled as 'matching' by Boxall (1992), and 'best practice' by Storey & Sisson (1993). Schuler's work (1989, 1992) has, however, been categorised as 'reactive' (Purcell & Ahlstrand, 1994: 33), as "human resource management strategy is seen as
fully subservient to corporate strategy and corporate strategy ultimately determines human resource policies and practices". This is evident in Figure 5.4. Organizational strategy is positioned at the top, with downward directions of influence shown by one-way arrows: organizational strategy and the strategic needs of the business are posited to be the major determinants of human resource policies and practices. As noted earlier, Schuler (1992) suggests that the concept of strategic HRM refers to the alignment of the 'five Ps' (philosophy, policies, programs, practices, and processes of HRM) in such a manner as to enhance strategic initiatives. Thus, Schuler and Jackson's (1987) approach has been criticised for failing to recognise the potential for reciprocity of influences between organizational strategy and HR strategy (Boxall, 1992; Lengnick-Hall & Lengnick-Hall, 1988). In his defence, it should be noted that Schuler (1992) argues that clear relationships between HRM activities and business needs tend to be the exception in practice, even in placid environmental periods.

**Figure 5.4 Schuler’s Model of Human Resource Strategy**
(Source: Schuler, R.S. (1992). Strategic human resources management: Linking the people with the strategic needs of the business. Organizational Dynamics, Summer: at p. 18.)
Schuler & Jackson (1987) and Schuler (1992) suggest a top-down, one-way relationship between organizational strategy and HR strategy. Indeed, a criticism of the approach adopted by Schuler and his colleagues is the extent to which it is contingent on the notion of 'fit'. Despite this criticism, it should be recognised that these authors do not suggest that corporate strategy is the sole determinant of HR strategy, although it may be the primary one. Indeed, writing in 1991, Bamberger and Phillips (pp. 156-158) pointed out that "the limited empirical evidence provided to date suggests that the variance in human resource strategy cannot be explained by business strategy alone".

Another issue which emerges with respect to Schuler and Jackson's (1987) approach is the question: "is it possible to have a corporate-wide, mutually reinforcing set of HRM policies, if the organization operates in highly diversified product markets, and, if not, does it matter in terms of organizational effectiveness?" (Legge, 1989: 30). It would be feasible that, if an organization such as an MNE, sought integration only at the financial level, allowing business units or divisions high levels of autonomy, it would only be necessary for each unit to adopt HR strategies which held consistency with the unit's organizational strategy and other HR strategies. It would not matter whether such HR strategies contradicted HR strategies pursued in other autonomous units (Legge, 1989). This approach would only become problematic if requirements for inter-unit operational integration increased; in such circumstances, perceived inequities or inconsistencies, or differing sub-cultures across units, might undermine trust and commitment (Legge, 1989).

An assumption apparent in early HRM work such as that by Fombrun et al. (1984) was that HRM is considered strategic in the event that it closely follows organizational strategy. A major criticism of this assumption is that the relationship between strategy formulation and implementation is likely to be influenced by multiple factors and contextual conditions which need to be taken into account (Brewster, 1994; Mintzberg, 1978). Dyer (1984) has taken an approach which contrasts with the work of Schuler and colleagues, by applying Mintzberg's view of strategy to the field of HRM. Dyer (1984: 159) has defined human resource strategy as:
the pattern that emerges from a stream of important decisions about the management of human resources, especially those decisions that indicate management's major goals and the means that are (or will be) used to pursue them.

Dyer's (1984) 'proactive' approach argues that the human resources function is actively involved in the process of strategy formulation. Dyer's conceptualisation of this relationship is shown in Figure 5.5. Dyer (1985) has suggested that the HRM function should be integrated into processes of strategy formulation as well as strategy implementation. Hence, he has emphasised the importance of the presence of a HR director at board level, proactivity in the HR function, and coherence between all HR functions, policies and practices. Similarly, Purcell (1994) reports that the presence of a Personnel Director on the main board was associated with strategic involvement of the HR function. Dyer (1984) distinguishes between the content and process of strategy-making in HRM, and recognises the fluid, dynamic nature of emergent strategy (Mintzberg & Waters, 1985). As Boxall (1992) has suggested, this implies a need for longitudinal or retrospective research.

Figure 5.5. Hypothesized Linkages Between the HR-Business 'Fit' and Various Outcomes
As can be seen from the preceding discussion, several efforts have been made to define and operationalize the concept of HR strategy (Dyer & Holder, 1988; Huselid, 1993). Bamberger and Phillips (1991) argue that the prescriptive direction of much of the strategic HRM literature has been shown to have limited validity under empirical testing. They suggest that explanatory factors may include: poor conceptualisation in models which are difficult to operationalize in a dynamic context; failure of models to fully reflect the reality of organizational politics, power and pressures; and, most importantly, "models have been flawed because they ignored the conflicting pressures which influence the formulation of business strategy in general, and human resource strategy in particular" Bamberger and Phillips (1991: 154).

Lengnick-Hall and Lengnick-Hall (1988) explore how HRM activities might be considered in view of an enterprise's strategic goals and competitive position. They noted that, while integration between HRM and competitive strategy has often been proposed in the extant literature, complex repercussions of this integration must be recognised. First, it is desirable to integrate the two as the combination should provide a broader range of solutions to organizational problems. Second, integration should ensure that human resources are accorded similar weighting in strategic decisions as financial or other resources. Third, integration generates greater awareness at senior management levels of individual needs of employees. Finally, integration should bring reciprocal influences between HRM and strategy, thus overcoming subordination of the former.

Lengnick-Hall and Lengnick-Hall (1988) review several approaches which have suggested a top-down, one-way relationship between organizational strategy and HRM. They present a typology of enterprises and suggest instead a "reciprocal interdependence between a firm's business strategy and its human resources strategy" (Lengnick-Hall & Lengnick-Hall, 1988: 466-467). Both of these are seen as outcomes of influences and events which provide inputs and constraints on the other. Interestingly, these authors do not suggest any influences of organizational strategy or HR strategy on environmental factors.
Many strategic HRM models emphasise the need for fit, or congruence. Lengnick-Hall and Lengnick-Hall (1988) point out, however, that lack of fit may actually be preferable during organizational transitions and in circumstances where enterprises hold multiple and possibly conflicting goals. For example, achieving fit has arguably been a guiding principle in approaches to managerial succession planning, but fit may be counterproductive by inhibiting innovation and constraining the enterprises's range of available knowledge, skills and abilities. It has been suggested that:

*The whole issue of fit deserves reassessment. Research has shown that achieving fit is not always desirable. Further, a focus on maximizing fit can be counterproductive if organization change is needed or if the firm has adopted conflicting competitive goals to correspond to a complex competitive environment* (Lengnick-Hall and Lengnick-Hall, 1988: 460).

As Boxall (1992) has suggested, the allegory of fit appears to contradict the corporate Zeitgeist of flexibility and dynamic learning. It may be preferable to redefine fit as "an organisation is effective to the extent that it achieves fit in a succession of different environments" (Boxall, 1992: 69). Whatever the particular stance taken on the relationship between strategy and HRM, it is important to recognize that the task of achieving congruence or fit is not simple nor straightforward (Ferner, 1994; Storey & Sisson, 1993). Indeed, Storey and Sisson (1993: 78) state the obvious point that "managing strategically is not simple either at the conceptual or the practical level".

Bamberger & Phillips (1991) reviewed major contributions to the extant SHRM literature, noting the various ways in which relationships between environment, organizational strategy, and HR strategies, have been conceptualised. While several models suggest a role for environmental factors as determinants of HR strategy, these models are vague with regard to the nature of the interaction (Bamberger & Phillips, 1991). The degree to which human resource strategy is differentially influenced by organizational strategy and environmental factors may depend on the degree of politicization in the process of filtering environmental factors into the business plan (Bamberger and Phillips, 1991; Lengnick-Hall & Lengnick-Hall, 1988). They point
out that there may be a number of options available to manage such conflicts. First, in loosely coupled enterprises, no effort for reconciliation of conflicting influences may be necessary; indeed, conflicting influences may provide a better 'fit' than would consistency. Second, reconciliation may be in favour of either organizational strategy or environmental pressures, depending on issues such as the pace of change required and organizational politics. This reconciliation may not be consistent across an enterprise; some divisions may reconcile conflicts in favour of organizational strategy, others in favour of environmental conditions.

While the term 'conflicting' has been used to describe the influences of environmental factors and organizational strategy on human resource strategy, it should be noted that conflict may not always be dysfunctional. Bamberger and Phillips (1991) emphasise the need for HR practitioners to conduct environmental analyses independent of any analyses conducted at the organizational strategy level. The latter may provide a biased filter and thus inhibit the range of HR strategies to be considered. These authors point out that HR-related decisions are made over time and across organizational levels. This perspective also supports attempts to operationalize HR strategy decisions.

Bamberger & Phillips (1991) investigated the conditions under which the human resource strategy implications of environmental conditions would be parallel, identical to, or in conflict with human resource strategy implications of organizational strategy. Using a grounded theory approach, these authors found four human resource strategy dimensions: organizational culture, compensation and rewards, staffing and performance appraisal, and training and development. In contrast with extant literature, structural issues were coded as organizational strategy concepts, not as HR strategy dimensions (Dyer & Holder, 1988). Bamberger & Phillips (1991) identified conflicts between implications of environmental factors and organizational strategy factors for all four human resource strategy dimensions, although the conflicts were more extreme in some areas, particularly compensation and performance appraisal.

Dowling & Schuler (1990) recognise that enterprises with more than one business are
likely to have more than one set of HRM practices. Further, different business units may pursue different competitive strategies.

*Attendant with the challenge of matching HRM practices with different strategies then is the challenge of managing the interface of these different practices and treating employees across divisions equitably with regard to issues such as career development, equal opportunity, and compensation* (Dowling & Schuler, 1990: 149).

Purcell and Ahlstrand (1994) point out that in multidivisional enterprises there may often be a lack of fit between strategic re-structuring and HRM (or employee relations) practice, as different managers may pursue different interests and styles of management. Purcell and Ahlstrand (1994) suggest that managers in multidivisional enterprises have the power to make strategic choices. These fundamental choices will alter HRM outcomes.

Focussing on multidivisional enterprises, Purcell and Ahlstrand (1994) depict three levels of strategy, as shown in Figure 5.6. First-order strategies are upstream, concerned with long-term directions of the enterprise, or scope of activities. Second-order strategies are concerned with relationships between operating procedures or different areas of the enterprise. Third-order strategies relate to strategic choices made with regard to functional management, including HRM (or employee relations). Outcomes, or what actually happens in HRM practices, will be influenced by decisions made at all three levels, and "by the willingness of local management to do what is intended in the context of specific environmental conditions" (Purcell & Ahlstrand, 1994: 43). Purcell and Ahlstrand (1994) recognise the possibility of upward influence on strategy, and recognise the potential for the environment to be a direct influence at all levels of organizational processes. These authors recognise the difficulty in measuring outcomes of HRM. Indeed, while their model is intuitively not overly complex, operationalization and testing of the inherent concepts may be.
It has been argued that, to apply Guest's (1987) view of HRM to a multidivisional company, it would need to be considered as a first-order strategy.

*What distinguishes diversified, multi-divisional companies from simpler, functional firms is the range of strategic choices open to them. They are not prisoners of their environment but are more able to shape and structure their activities and environment to maximise the achievement of their purpose, always supposing they have sought to define this in the first place beyond a vague desire to ensure survival* (Purcell and Ahlstrand, 1994: 49).

A fundamental connection between strategic literature and HRM literature is found with respect to HR planning (Cappelli and Singh, 1992; Dyer, 1983; Schuler & Walker, 1990). Lengnick-Hall and Lengnick-Hall (1988: 457) cite Cascio's (1987) broad definition of HR planning as "anticipating future business and environmental demands on organizations and meeting the personnel requirements dictated by those conditions". They suggest that this implies that HR planning may be an important contributor to strategic plans. HR planning takes a long-term view of developing a
staffing plan for human resources. The use of HR planning and SHRM have been advocated by academic and practitioners alike (Greer, Jackson & Fiorito, 1989; Huselid, 1993). Huselid (1993: 37) has suggested that "by far, the most common form of SHRM [strategic HRM] relies on HRP [human resource planning]."

Huselid provides results for 882 publicly-held enterprises, in which he found that adoption of HR planning and SHRM is a function of a number of factors: enterprise size, overall organizational planning sophistication, involvement of HR managers in the business planning process, and research and development intensity (the last was significant for HR planning only). Although hypothesised, the factors of prior enterprise growth, capital intensity, and the level of union coverage were not significant predictors of adoption of HR planning and SHRM. Interestingly, however, Huselid (1993: 46) suggests that union presence seemed to "encourage firms to become more "strategic" in their response towards human resources, and this is reflected in greater use of SHRM". He also investigated the impact of environmental volatility, in the form of product-market volatility and workforce volatility, on HR planning and SHRM, hypothesising that the impact will be curvilinear (with maximum impact in environments of medium volatility). This appears to support Schuler's (1992) argument noted earlier.

**Strategic Human Resource Management and Industrial Relations**

Boxall (1992: 66) raises the important point that in the extant literature discussing the relationship between business strategy, environment and HR strategy, "rarely is there an acknowledgment that the interests and characteristics of employees might play a part". First, according to Boxall (1992), workforce segmentation and pluralism must be recognised. As Purcell (1987) has noted, there may exist a basic difference between the managerial style and level of sophistication in HRM policies related to management and non-managerial employees. While flexible-firm models such as Atkinson's (1984) are controversial, the prevalence of workforce segmentation in practice is irrefutable. Boxall (1992: 64) argues that "we must recognise that HR strategy contains different goals and means for different workforce segments".
Importantly, Schuler (1989) does include some consideration of labor relations. Schuler's work (1989) builds on the approach presented by Kochan, McKersie and Cappelli (1984) by considering the role of HRM in strategy formulation and implementation and the implications for industrial relations. Kochan et al. (1984) provided a strategic perspective on industrial relations research by arguing that unions, management and government, as actors in industrial relations, held discretion in decision-making, thus enabling them to make strategic choices. These strategic choices could lead to outcomes which impact on IR, such as collective bargaining outcomes. This approach adds a potentially dynamic component to the traditional system perspective of industrial relations (Schuler, 1989).

Kochan et al. (1984) developed a three-dimensional matrix of industrial relations strategy. First, they identified three major sources of decisions: employers, government, and unions. Second, they identified three levels of action: macro-level or global; the employment relationship and industrial relations system; and the workplace, including individuals and groups. Third, they identified the types of decision made at each level by each group of decision-makers. For employers, decisions at the three levels, respectively, include: 1) the strategic role of human resources, plant locations, and new technology; 2) personnel policies, negotiations and strategies; and 3) contractual or bureaucratic relationships, and individual participation in workgroups. Kochan, Katz and McKersie (1986) recognise that unions and governments will make strategic decisions, but argue that the most important decisions will be the strategic choices made by managers.

The work by Kochan et al. (1986) is complementary to the Harvard framework (Beer et al., 1984) in that both emphasize the strategic choices made by managers. Management is viewed as an active recipient and influence on environmental and organizational factors. Schuler (1989) also focuses on the dimension of the employer. As Boxall (1992) has pointed out, pluralism of philosophy and practice must be acknowledged amongst managerial levels (horizontal and vertical). To put it simply, not all managers may think and act alike. It is important to recognise that HR strategies may occur at a number of levels in an enterprise (Purcell & Ahlstrand, 1985).
Schuler integrated a number of elements raised by other researchers, including: life cycle, environment, organizational strategy, multiple managerial approaches in multidivisional enterprises, employee behaviours, and industrial relations issues. He also avoided a prescriptive, normative approach by recognising issues such as lack of reciprocity in practice (despite academic arguments recommending such reciprocity, or interaction). Lengnick-Hall and Lengnick-Hall (1988: 468) acknowledged that:

To date, there is little empirical evidence to suggest that strategic human resource management directly influences organizational performance or competitive advantage. However, there is much anecdotal evidence to suggest that such a relationship does exist ...

From the viewpoint of practicing managers, it is too early to adopt one theory of strategic human resource management and expect a blueprint for decision making.

It has, however, been suggested that linkages between organizational strategy and HR strategy will lead to enhanced organizational competitiveness and effectiveness. For example, Smith and Ferris (1988) found higher performance levels in enterprises in which HRM is integrated into the process of strategy formulation. Further, efforts have been made to predict outcomes of effective HR strategy (Buller, 1988). It is well recognised that:

* demonstration of a causal linkage between different human resource practices and business performance is fraught with immense difficulty because of the vast range of confounding variables* (Storey, 1992a: 40).

There is strong argument that HR functions such as training, performance management, compensation management can contribute to competitive advantage and are capable of impacting the bottom line of the enterprise, that is, the organization's survival, growth, profitability, flexibility, competitiveness, and productivity organizational effectiveness (Florkowski & Schuler, 1994; Pfeffer, 1995; Tsui & Gomez-Mejia, 1988). For example, Huselid (1993) found a positive correlation
between sophisticated (strategic) HRM and financial performance measures. Results are, however, by no means conclusive. By way of contrast, Martell and Carroll (1995) found no significant relationships between measures of strategic HRM and organizational performance, although they were able to demonstrate that, in contrast to earlier studies which found little integration between strategy and HRM, two-thirds of their sample of Fortune 500 companies involved senior HRM executives in strategic decision making.

Brewster (1993; 1994) has reviewed the similarities and differences between HRM in the USA and in the European context. He points out that the underlying assumptions regarding the employer-employee relationship are significantly influenced by contextual factors such as legislation, national culture, patterns of ownership, trade union membership density, labour market conditions, and management-labour communications. Brewster (1994) argues that these factors surround enterprise-level HRM policies and practices. He also presents data which indicate that HRM and organizational strategy are more closely integrated, at least at top levels, in European enterprises than has been documented for enterprises in the USA.

It must be acknowledged, however, that other researchers have argued that neither American nor British industry has 'lived up to' the ideal model of HRM (Kerfoot & Knights, 1992). For example, Storey (1993) has suggested that British enterprises since the mid-1980s have initiated management strategies and practices which are related to HRM. He argues, however, that these enterprises have not rigorously nor consciously adopted HRM or any other model. They have simply installed a wide-ranging collection of initiatives. Storey (1993) suggests that the required consolidation and embeddedness of these initiatives will present far more challenges than did their introduction, due partly to the intra-firm manner in which they may be implemented, but also due to the EU political changes and repercussions of EU regulation.

Brewster (1994, 1995a, 1995b) has argued that some adaptation of the dominant American HRM paradigm needs to be made for the European context. Brewster has
presented several versions of a 'European model of HRM' (Brewster, 1994; Brewster & Hegewisch, 1994; with iterative refinement towards an international framework which emphasizes the importance of contextual factors such as national culture, labour markets and legislation (Brewster 1995b) (see Figure 5.7). As discussed in Chapter 3, European integration has a multitude of implications for enterprises and HRM. The model acknowledges the presence of national and international levels of environmental context. Further, his model places organizational strategy and HRM strategies in close interaction. This model builds upon the previous literature in the USA and in Europe, and is arguably a strong contribution towards a conceptualization of HRM which is applicable in an international, although particularly European, context. Brewster (1995b) concedes that the model needs development with regard to MNEs and the conceptualization of international HRM.

Figure 5.7. "European" (Contextual) Model of HRM

Brewster's (1994) argument for recognition of regional or national differences which are important for HRM is supported by the large-scale study of HRM policy and
practice in Europe (Brewster & Hegewisch, 1994). Also, it is supported by the findings of the Korn/Ferry International/Columbia University (1989) study, which was discussed in Chapter 4.

In summary, important developments have been observed in theory and research on linkages between HRM practices and organizational strategy and the movement towards strategic HRM (Dyer, 1986; Wright & McMahan, 1992). In parallel, recognition of the importance of HRM in international management has blossomed (Brewster, 1994; Dowling et al., 1994; Pucik, Tichy & Barnett, 1992; Tung, 1984). These trends are not mutually exclusive, as the emerging field of strategic international HRM (SIHRM) has documented (Schuler et al., 1993). Indeed, SIHRM could be anticipated to provide significant opportunities for an integrative approach to theoretical and methodological advancement in the HRM field.

**The Emergence of Strategic International Human Resource Management**

Increasing attention has been focused on the role of HRM in international management (Dowling, 1986; Dowling et al., 1994; Kochan, Batt & Dyer, 1992). In essence, this focus has been on aspects of HRM in MNEs (Ferner, 1994; Tung, 1984). Recognising the complexity of MNEs, this area of HRM research and practice has become known as international HRM and has been defined as involving the same elements as HRM within a single country, yet with added complexity due to diversity of national contexts of operation and the inclusion of different national categories of workers (Dowling et al., 1994; Tung, 1993; Tung & Miller, 1990). A major aspect of international management and HRM research has been concerned with coordination across national borders via the cross-national transfer of management and management practices (Gomez-Mejia & Welbourne, 1991; Mendenhall, Punnett & Ricks, 1995; Vance, McClaine, Boje & Stage, 1992).

An intra-organizational focus has been reflected in most international HRM research (Black, Gregersen & Mendenhall, 1992; Dowling et al., 1994). Research which
considers linkages between the external environment, organizational strategy, and issues of international HRM has emerged (Sundaram & Black, 1992), although less empirical work has been done. Parallel to development of analysis of strategic HRM issues, international HRM researchers and practitioners have shown increasing recognition of the strategic nature of international HRM (Caligiuri & Stroh, 1995; Milliman et al., 1991). SIHRM has been defined as:

human resource management issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact the international concerns and goals of those enterprises (Schuler et al., 1993: 422).

This definition is consistent with, yet expands upon, the definition of strategic HRM offered by Wright and McMahan (1992) in a domestic (single-country) context.

Milliman et al. (1991) recognized that MNEs must balance the social, political, economic and legal constraints of their various host environments. Further, they viewed HRM practices as contingent upon organizational strategy. Acknowledging the controversy surrounding the notion of "fit", or congruence (Lengnick-Hall & Lengnick-Hall, 1988), Milliman et al. (1991) sought to investigate "fit" by developing a model considering organizational life cycle issues for HRM in MNEs (see Figure 5.8). Milliman et al. (1991: 319) pointed out that "the concepts of fit and flexibility are expected to be even more complex when applied to the [MNE]". Recognising this complexity, their model expands upon the notions of external and internal fit. Externally, IHRM should be congruent with the organizational life cycle and cross-cultural and cross-national environments. Internally, IHRM should show congruence across HR functions within an MNE unit, and congruence in HR practices across MNE units. Thus, the management approach for each unit, or subsidiary, in an MNE must be flexible enough to balance multiple "fits", in order to achieve organizational effectiveness. This model thus builds upon the previous HRM research discussed in this chapter, and represents a useful step in the development in applications of HRM research to the international context. As with Brewster's (1995b) framework, however, it is recognized that the complexity of the MNE context requires further exploration and specification.
An Integrative Framework of Strategic International Human Resource Management

Schuler et al. (1993) have developed an integrative framework of SIHRM that recognizes the complexity of interaction between exogenous and endogenous factors which inform the strategic choices and the practices within MNEs, and ultimately influence the realisation of MNE goals. Shown in Figure 5.9, this framework allows a consideration of the linkages between SIHRM strategies and practices and company strategies and performance in the context of the external environment. This framework has been offered as a conceptual model, rather than being solely prescriptive or descriptive (Storey, 1992a). It has been recognised that strategic HRM (and international HRM) literature has included a strange mix of description, prescription and prediction (Storey & Sisson, 1993).

Schuler et al. (1993) presented their framework as a conceptual model of exploratory

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A complete copy of this article by Schuler et al. (1993) is provided at Appendix 4.1.
analysis which aims to contribute to ongoing debate. The framework sets out the elemental features which make SIHRM distinctive from other approaches to international management. The elemental features and their inter-relationships have been identified through iterations of hypothetico-deductive and inductive reasoning. The major purposes of this framework are to reveal connections between variables, to allow the development of testable propositions for future research investigation, and to identify implications for practitioners. Each of the framework elements will be discussed in some detail. As noted earlier, a strength of the Harvard framework is the acknowledgment of a broad range of contextual influences on strategic choice regarding HRM. While organizational strategy is viewed as important, it is no more nor less important than a number of other factors. This is also the approach adopted in the SIHRM framework (Schuler et al., 1993).

Figure 5.9. Integrative Framework of SIHRM

Schuler et al. explained their intention as offering "a conceptual map which describes a number of interrelationships and influences and which offers a number of propositions for future research" (1993: p. 451). Schuler et al. (1993) supported their
framework with a set of 34 testable propositions, in 10 categories, in order to describe the relationships between the framework variables. These propositions were offered as tentative statements to allow for discovery of unpredicted phenomena or relationships (Eisenhardt, 1989). The framework and research propositions were offered by Schuler et al. (1993) with the intention of encouraging research.

**Strategic MNE Components**

An imperative for SIHRM and the realisation of MNE goals is the balance of often conflicting needs of global co-ordination (integration) and local responsiveness (differentiation) (Bartlett & Ghoshal, 1992; Doz, 1987; Doz & Prahalad, 1991; Nohria & Ghoshal, 1994). Integration refers to the achievement of MNE interunit linkages and responsibility for enterprise-wide integration of product-development and functional oversight. Differentiation refers to the enhancement of local responsiveness to the diverse demands of various markets and local conditions (Bartlett & Ghoshal, 1992; Prahalad & Doz, 1987). Issues of integration and differentiation may be extremely complex in a global context which embodies a great diversity of exogenous and endogenous factors which have significance for SIHRM and other MNE operations. Such factors have been well recognised in the international management literature (Kobrin, 1994; Porter, 1986; Prahalad & Doz, 1987; Rosenzweig & Singh, 1991; Schuler et al., 1993). For example, Kobrin (1992) used survey data to examine the fit between HR practices and the extent of globalization in MNE strategy. Rosenzweig and Nohria (1994) suggested that HRM may be particularly susceptible to local responsiveness, or local isomorphism. In their study of 249 U.S. affiliates of foreign-based MNEs, they found a trend for HRM practices to be locally responsive. Further, Caligiuri & Stroh (1995) have provided evidence to support the argument that local responsiveness for HRM practices should be incorporated into the organizational strategy of MNEs.

MNEs more or less consciously balance pressures for global and local markets, global and local manufacturing and sourcing, and global and local resources. The more an MNE provides global direction, the less opportunity the local units have in exercising
discretion, autonomy and implementing initiatives. On the other hand, with a focus on low global direction and high local discretion, local affiliates or subsidiaries exercise significant autonomy. The more local discretion, the more difficult it is for the MNE to mobilise interdependent resources. MNE management need to determine the appropriate strategic mix of integration and differentiation.

A major issue in international management research relating to integration and differentiation has involved the convergence-divergence debate (Adler, Doktor & Redding, 1986). *Convergence* refers to the observation that demands of industrialisation and worldwide coordination and competition lead to increasing similarities, aided by factors such as technology, education, and improved standard of living. Issues of convergence have been raised throughout this century (Dunphy, 1987). Kerr, Dunlop, Harbison & Myers (1960) presented the thesis that the organizational and institutional patterns of industrial societies are converging. Kerr et al. (1960) suggested that the logic of industrialism generates economic and technological imperatives, which mould the development of national institutional frameworks in industrialised societies towards a common pattern, or convergence, despite disparate politics, ideology and cultures. Harbison and Myers (1959) argued that industrialisation brings increasing functional specialisation within industrial organisations; this specialisation is needed as firms develop in terms of complexity and size, with increasing co-ordination demands. This development also makes centralisation of all decision-making impossible; managerial decentralisation and participative decision making are necessary. Harbison and Myers (1959) concluded that this pattern will not be influenced by national culture.

This logic was reflected in the conclusion by Hickson, Hinings, McMillan & Schwitter (1974), that the relationships between organisational structures and their context are culture-free. Child & Kieser (1979: 251) examined the argument presented by Hickson et al. and concluded that the culture-free argument is of "limited significance and based on unproven causality". Further, Rose (1985: 66) has presented a perspective on macro-social change, from which "convergence theory is at best sterile and at worst obscurantist".
Dunphy (1987) suggests that the early 1970s provided new theoretical hypotheses regarding convergence, as researchers argued over the influences of culture and history on economic development (which may include factors such as organisational structure and employment patterns, and aspects of individual behaviour in organisations). Later in the 1970s, this debate broadened to consider the transferability of Japanese management practices offshore. In particular, similarities and differences between Japanese and U.S. firms were examined with suggestions that these reflected convergence. To summarize the literature of this period, the culture-free hypothesis was overwhelmingly rejected (McGaughey & De Cieri, 1995). More recently, the advocates of the culture-free hypothesis have come to reject it (Hickson & Pugh, 1995).

Contemporary HRM and industrial relations literature, particularly in the EU, has been vocal on issues of convergence-divergence (see, for example, Due, Madsen & Jensen, 1991; Jensen, Madsen, & Due, 1995; Sparrow, Schuler & Jackson, 1994; Walsh, 1995) although empirical research is somewhat sparse (Baldry, 1994). Indeed, in much of this literature, the concepts of convergence and divergence, appear to be treated as given, with scant questioning. Baldry (1994) questions whether it is possible to have the increasing societal convergence which other writers seem to be predicting, in the face of trends towards industry deregulation (which would presumably lead to greater divergence). He describes convergence as "a socio-structural concept" and draws a distinction between:

... a model of convergence via increasing uniformity of legal and political processes [which] produces a very different end result from the model of convergence working through a prime mover such as technology or changing markets such that it seems impossible for them both to be true at the same time (Baldry, 1994: 103).

Baldry also notes that: "different systems can appear to be experiencing the same influences or shared experiences but are not necessarily converging" (1994: 107). For example, the EU member states are experiencing pressures towards regional integration yet their internal infrastructure leads to different implementation of laws
and regulations promulgated at European level.

Fombrun (1986) has criticised the extant organizational literature for focusing on processes of convergence while tending to ignore contradiction, or divergence. He suggests that convergence and divergence are temporally separate aspects of the same process, and

*Any convergence of the levels of structure itself builds up social tensions through contradiction that destabilize or negate the convergence, leading to periodic revolutions and a forced shift to a new configuration* (Fombrun, 1986: 414).

The convergence-divergence debate has, of course, not been confined to industrial research. For example, ethnic studies have included vigorous discussion of this debate. Borjas (1994) has commented that economists have, to some extent, ignored questions of ethnic convergence, although the issue has been prominent in sociological research. With respect to studies of migration patterns and ethnic boundaries, it has been suggested that societies such as the U.S.A. operate as a 'melting pot', with convergence, over several generations, of ethnic minorities into a more homogenous society (e.g. Alba, 1990). Benski (1994: 256), however, has argued that "ethnic convergence processes may proceed in various directions among different subsections of the same group", suggesting that convergence is not a unidirectional process. This would appear to lend support to criticism of the argument for convergence towards the management practices of one country such as the USA.

Convergence would be expected to facilitate international transferability of management style and practices, and MNEs are justifiably viewed as a considerable force for convergence. The amount and pace of convergence will, however, vary according to the relative power of the opposing forces for divergence. Micro-level factors, such as beliefs, norms, culture, and values, are often cited as forces for divergence (De Cieri, McGaughey & Dowling, in press; McGaughey & De Cieri, 1995). There are, however, examples of converging micro-level factors, such as increasing cross-national similarity in values, concurrent with industrialisation.
There is also evidence to suggest there are both converging and diverging macro-level factors. For example, some national laws create greater similarity between nations, others greater dissimilarity (Van Peijpe, 1995).

Convergence of intra- and inter-regional trading blocs has been discussed in Chapter 4 (Delors, 1995; Department of Foreign Affairs & Trade, 1994a; Lloyd, 1995). The EU provides an example of regional integration, or convergence at the macro-level, as it expressly aims to develop a single market (George, 1991; Lodge, 1989; Wistrich, 1994). However, it seems inevitable that national industrial relations systems will continue to operate, in Europe and elsewhere. Even within the framework of the Maastricht Treaty on European Union, national systems "which are already divergent, will continue to be so, probably even more, due to over and above pronounced nationalisms, added decentralization (federalism), more overseas management operating locally and company culture, being of importance" (Blanpain, 1992: 20). Moreover, as enlargement of the EU continues, there is evidence of difficulty in obtaining convergence amongst diverse national labour laws and industrial relations systems (Bercusson, 1995; Reder & Ulman, 1993; Streeck, 1993), recognising that a national industrial relations system forms an integral part of the national cultural identity (Blanpain, 1992; Bridgford & Stirling, 1991; Clarke & Bamber, 1994). Some degree of 'Europeanization' of industrial relations is feasible, through convergence in terms and conditions of employment (Bean 1994; Bridgford & Stirling, 1994; Valkenburg & Zoll, 1995).

There is no doubt that the Maastricht Treaty, Social Protocol and Agreement have facilitated the development of new aspects of social policy. In particular, it has been argued that the industrial relations systems of the signatories of the Maastricht Social Protocol and Agreement will converge as certain common basic standards and conditions are laid down by European-level labour laws and eventually by European collective agreements (Bercusson & Van Dijk, 1995). Bercusson (1995) suggests that, despite the exclusion of the United Kingdom from the Maastricht Social Policy Agreement, labour law in the United Kingdom will inevitably converge with the labour
laws of other EU member states, driven by the institutional pressure of EU membership. To some extent, this convergence may also be attributable to the intertwinnings of the EU market and the interdependence of global markets.

As shown in the integrative framework (Figure 5.9), these dynamics have implications for SIHRM, as there are specific issues of integration (inter-unit linkages) and differentiation (internal operations) pertaining to SIHRM. For an MNE, integration may be achieved through a variety of mechanisms, including bureaucratic control, centralization, normative integration, and critical flows. **Bureaucratic control** is reflected in systematic rules and procedures utilised in decision-making (Ghoshal & Nohria, 1989). **Centralization** refers to the extent to which the locus of decision-making lies in the higher levels of the organizational hierarchy (Brewster & Larsen, 1992; Child, 1973; Galbraith & Kazanjian, 1986). **Normative integration** refers to the building of common perspectives, purposes and values amongst managers across different units (Edström & Galbraith, 1977; Ghoshal & Nohria, 1989, 1993; Kobrin, 1994; Martinez & Jarillo, 1991). Finally, there are **critical flows** of capital, technology and people (Bartlett & Ghoshal, 1987, 1989, 1992). The flow of people, or expatriation, within and between MNE units is the mechanism in which SIHRM is perhaps most involved (Schuler et al., 1993). For example, expatriation plays an important role in the maintenance of organizational culture, particularly through the dissemination of knowledge, skills and ideas (Welch, Fenwick & De Cieri, 1994).

As shown in Table 5.1, Schuler et al. (1993) presented 10 propositions which deal with the development of interunit linkages required for global coordination [P1(a) to P1(e)], and local unit management, required for local responsiveness [P2(a) to P2(e)], particularly through SIHRM activities. It could be argued that investigation of P1(a) to P2(e) would require examination of an MNE's total operations, with information gathered on all units and their interunit unit linkages. Investigation of one regional operation, as in the present study's focus on the EU, could, however, provide some initial information on the implications of strategic MNE components for SIHRM issues.
Table 5.1. Propositions Offered by Schuler et al. (1993) 
Relating to Strategic MNE Components and SIHRM

P1(a). As a means for control and coordination, MNEs will initially attempt to utilize PCNs in preference to HCNs or TCNs; however, resource considerations will give way to facilitating the utilization of HCNs and TCNs by MNEs to control and coordinate their global operations.

P1(b). As MNEs increase their reliance upon HCNs and TCNs to control and coordinate their global operations, they will devote more resources to socializing these employees and to developing policies and procedures that might be used to guide local decision making, while still allowing some local discretion.

P1(c). When the benefits from coordinating units are high, and local environments vary, MNEs will attempt to systematically develop their HR policies and practices to link with the needs of the business and accommodate to local conditions.

P1(d). For MNEs, linking units with systematically developed HR policies and practices will be more important and challenging to the extent the units are divergent and the benefit from coordination is high.

P1(e). MNEs will increase their utilization of management development activities as their needs to coordinate the strategic activities of separate units increase and the utility of having a global pool of managers increases.

P2(a). Local unit HR practices will reflect the imperative of the competitive strategy of the local unit and the cultural imperative of the local environment. Thus, local units pursuing a competitive strategy will have HR practices that reflect and support that strategy and will have HR practices that reflect the local environment.

P2(b). Units within MNEs will develop HR practices reflective of local conditions and simultaneously be ready to adapt some HR practices to coordinate activities with other units particularly as the needs for coordination increase.

P2(c). Under changing organizational and environmental conditions, MNEs will create mechanisms and policies that recognize and support the revision of HR practices in the local units.

P2(d). As the need for integration of units increases and the respect for local conditions remains, MNEs will create HR policies that can encompass [i.e. be consistent with] the variations in HR practices within the local units.

P2(e). As units become more geographically dispersed and more diverse, MNEs will devote more resources to developing HR policies and procedures as the need to coordinate these units increases.


Exogenous Factors

MNEs are influenced by their external environment, and even more so, their competitive environment. Managers operating internationally are required to consider the worldwide conditions, including the political, technological and economic contexts. For example, the GATT/WTO provides multinational agreements through which restrictions and opportunities are provided for international trade (Department
of Foreign Affairs & Trade, 1994a; Garnaut et al., 1994). A range of exogenous country or regional factors may hold significance for SIHRM. These factors include: economic, political, historical and legal environments (Begin, 1992; Florkowski & Nath, 1993; Ring, Lenway, & Govekar, 1990; Sundaram & Black, 1992); work force characteristics such as education levels and labour costs (Johnston, 1993); and socio-cultural characteristics (Hofstede, 1994). For Australian enterprises seeking to operate in the EU, the external environment contains important variables to consider, as have been raised in earlier chapters of this thesis. For example, the issue of equal opportunity has a fairly high profile in the EU, with several marked differences between member states, and with Australia. For example, the use of quotas as part of equality programs for women is illegal in the United Kingdom but not in the Netherlands, where it has been incorporated into some collective agreements (Povall & Langkau-Herrmann, 1991, cited in Brewster & Hegewisch, 1994).

Schuler et al. (1993) presented 10 propositions which deal with the implications of exogenous factors for SIHRM, shown in Table 5.2. P3(a) to P3(c) refer to implications for SIHRM of an MNE's position on the type of business or industry in which they operate, according to Porter's (1986) global-multidomestic strategic continuum. P4(a) to P4(c) refer to competitive behaviour of the MNE and its rivals. P5(a) and P5(b) refer to an MNE's behaviour as a response to the extent and pace of change in their environment. P6(a) to P6(c) refer to the implications of political and economic risk, legal and socio-cultural differences for SIHRM policies and practices.

Investigation of P3(a) to P4(e) would appear to be feasible only through data collection from multiple sources within the industry or industries in which an MNE operated, with some emphasis on analysis of industry and competitor data. From a research perspective which focuses on the MNE as the unit of analysis, the collection of such data may be difficult or inappropriate. In addition, these propositions [P3(a) to P4(e)] rely upon the utilization of Porter's (1986, 1990) approach to industry analysis and strategic behaviour. As shown in the previous literature review, this approach has been somewhat overtaken in the HRM literature by a more fluid analysis of both planned and emergent strategic issues (Dyer, 1984; Mintzberg & Waters, 1985).
1985). For these reasons, P3(a) to P4(e) will not be investigated in the present study. In contrast, P5(a) to P6(c) would require data to be collected from senior management of a single MNE. In the case of the EU, this information could be supplemented by valid and valuable data collected from analysts such as political analysts, management consultants, bureaucrats and officials. Hence, it is feasible to investigate P5(a) to P6(c) in the present study.

Table 5.2. Propositions Offered by Schuler et al. (1993) Relating to Exogenous Factors and SIHRM

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>P3(a)</td>
<td>In comparison to multidomestic businesses, in global businesses the need for and benefits from coordinated interunit linkages is high, thus attention and resources devoted to developing HR policies and practices to facilitate interunit linkages are also high.</td>
</tr>
<tr>
<td>P3(b)</td>
<td>MNEs whose dominant business is towards the global end of the industry continuum will have a HR function which is more international in orientation and will give more emphasis to the issue of international coordination and control.</td>
</tr>
<tr>
<td>P3(c)</td>
<td>MNEs whose dominant business is towards the multidomestic end of the industry continuum will have a HR function which is less international in orientation and will give more emphasis to the issue of coordination and control at the national level.</td>
</tr>
<tr>
<td>P4(a)</td>
<td>MNEs facing competitors who operate more globally will devote more attention to strategic international human resource management issues.</td>
</tr>
<tr>
<td>P4(b)</td>
<td>As competitors seek a more dominant market position globally, MNEs will devote more resources to strategic international human resource management issues. HR policies and practices to control and/or minimize risk will be implemented.</td>
</tr>
<tr>
<td>P4(c)</td>
<td>The strategic behavior of competitors will impact the behavior of MNEs more as the competitors assume a more significant share of the market. HR policies and practices to gain competitive advantage will be implemented.</td>
</tr>
<tr>
<td>P5(a)</td>
<td>The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.</td>
</tr>
<tr>
<td>P5(b)</td>
<td>The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
</tr>
<tr>
<td>P6(a)</td>
<td>The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
</tr>
<tr>
<td>P6(b)</td>
<td>The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
</tr>
<tr>
<td>P6(c)</td>
<td>The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
</tr>
</tbody>
</table>

Endogenous Factors
Schuler et al. (1993) identified four factors endogenous to MNEs which influence SIHRM. These include organizational competitive strategy, as has been discussed at length earlier in this chapter. Additional endogenous influences include: organizational structure, headquarters international orientation, and experience in international business.

Organizational Structure
Organizational structure establishes the formal framework of relationships between employees, by determining the number of employee levels and the arrangement of groups in an organization. Several researchers have documented the contemporary current trend for organizational restructuring intended to maximise quality and cost effectiveness (Dawson, 1991; Lowe, 1992). This is often achieved by reducing employee numbers and encouraging decentralisation of decision-making to lower levels of the structure (Kirkpatrick, Davies & Oliver, 1992). Indeed, decentralization is a key issue in consideration of the HR role. Decisions regarding devolution have been an issue of some academic and practical concern (Tyson, 1995). One area of some debate has been that regarding organizational centralisation versus decentralisation, and the implications for HRM. The issue of centralization-decentralization (or devolution) refers to "the degree to which HRM practice involves and gives responsibility to line managers rather than personnel specialists" (Brewster & Larsen, 1992: 412). Centralisation and decentralisation relate to the balance between worker involvement in formulation of policies and implementation of policies fairly and consistently across an enterprise. In a centralised enterprise, major decision-making and policy formulation would be performed at one central location (at organizational headquarters). In contrast, a decentralised enterprise would involve decision-making and policy formulation at several locations and workplaces of an enterprise (Colling & Ferber, 1992; Hill & Pickering, 1986). For example, Brewster and his colleagues have reported upon their comprehensive survey of comparative HRM practices across European countries (Brewster & Bournois, 1991; Brewster & Hegewisch, 1994; Brewster, Hegewisch & Lockhart, 1991). One aim of their study
has been to show that HRM practices may be categorized according to two dimensions: the degree to which HRM is integrated with organizational strategy; and the degree of devolution to line managers (Brewster & Larsen, 1992).

HRM is clearly the primary task for HRM specialists, although line managers across MNE units may be directly involved in HRM functions and activities. In many enterprises, the decentralisation of HRM has placed increasing demands on line managers and supervisors to become more involved in decision making and to develop skills in dealing with workers under their supervision. This increased responsibility requires much attention to be paid to their training and support, to prevent unreasonable workload burdens and stress being placed upon line managers (Kirkpatrick et al., 1992; Staehle & Schirmer, 1992).

Enterprises operating on an international basis may experience a variety of structural forms, either as evolutionary stages or as modes of internationalisation, with increasing degrees of complexity (Bartlett & Ghoshal, 1988; Doz & Prahalad, 1991; Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1993). These modes of internationalisation include: export; establishment of sales subsidiaries or foreign branch offices; establishment of foreign direct investment with foreign production; global product or area division through production standardisation and diversification; global multidimensional structures; and international joint ventures. The choice of internationalization mode may be influenced by exogenous factors and endogenous variables (Hill, Hwang & Kim, 1990).

Agarwal & Ramaswami (1992) have discussed a contingency approach in which the choice of internationalization mode is influenced by the presence and degree of three major factors. The first factor is ownership advantages, such as firm size, international business experience, and the MNE's ability to develop differentiated products. These are viewed as determinants of the MNE's bargaining power. The second factor is location advantages, such as the market growth potential, or investment risk, which determine the desirability of a host country location as a potential site for investment. The third factor refers to internalization advantages,
such as contractual risk or transaction costs attached to various modes of internationalization. Additional influential factors might include the MNE's need for control, availability of resources, and specific MNE strategic objectives. Agarwal and Ramaswami (1992) found relationships between the three factors and choice of internationalization mode. They concluded that MNEs would prefer to enter through foreign direct investment, but are constrained by size and lack of international experience. A second finding was that MNEs are more likely to use investment modes in high potential markets, such as the EU. A third finding was that small, less experienced MNEs prefer joint ventures in high potential markets, due to the lower apparent exposure to risks.

Woodcock, Beamish and Makino (1994) extended the application of the contingency approach taken by Agarwal and Ramaswami (1992), and examined relationships between internationalization mode and organizational performance in 321 Japanese entrants to the North American market. Recognizing that performance in establishment phases is unstable, and that new ventures typically require longer establishment periods, all ventures were measured after two years at least. Their results suggest that the new venture mode outperforms the joint venture mode, which in turn outperforms the acquisition mode (Woodcock et al., 1994). Hence, research such as this suggests that have shown that organizational performance may be expected to vary by mode or internationalization.

Each mode of internationalisation has different SIHRM implications, with a direct relationship of increasing complexity. These stages are detailed by Dowling et al. (1994). While export may involve only limited HRM roles (such as administration of visits to overseas markets), a global product or area divisional structure would require more expertise, with fully-developed HRM in subsidiaries (Dowling et al., 1994). The transnational approach typically involves a matrix or mixed organizational structure. Recognition of the clumsiness and bureaucracy associated with matrix structures (Hill, 1994) has led to an emphasis on inter-unit networking (Bartlett & Ghoshal, 1990, 1992; Bartness & Cerny, 1993; Ghoshal & Bartlett, 1990). This requires complex international HRM strategies and practices, particularly in regard to
staffing the international operations of the company. The needs of enterprises operating in international business in each of these forms are diverse yet the demands of international business cannot be met without attention to international HRM strategies and practices, as outlined in Table 5.3.

Table 5.3. HRM Issues and Functions in Multinational Enterprises

<table>
<thead>
<tr>
<th>Type of Internationalisation</th>
<th>HRM Issues and Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>Limited HRM roles or issues</td>
</tr>
<tr>
<td>Establishment of sales subsidiaries or foreign branch offices</td>
<td>Major issue: Staffing with PCNs or HCNs?</td>
</tr>
<tr>
<td>Establishment of foreign production</td>
<td>Major issue: Technology &amp; management knowledge transfer to HCNs</td>
</tr>
<tr>
<td>Global product or area division by product standardisation or diversification</td>
<td>Major issue: Fully developed HRM in subsidiaries</td>
</tr>
<tr>
<td>Transnational (Matrix or mixed structure)</td>
<td>Complex issues including the use of TCNs</td>
</tr>
<tr>
<td>Co-operative ventures</td>
<td>Major issues: Evaluation &amp; promotion of managers; Corporate loyalty</td>
</tr>
<tr>
<td>Inter-organizational networks</td>
<td>Major issues: Increased complexity; Equity issues</td>
</tr>
</tbody>
</table>

Independent operation is by no means the only form of participation in international business. MNEs may enter into various types of cooperative arrangements, including licensing agreements, strategic alliances and joint ventures (Hendry, 1994b). Cascio and Serapio, 1991: 66) define international alliances as "a collaboration between two or more multinational companies that is developed to let them jointly pursue a common goal". Lorange (1986) identified four classifications of such cooperative ventures: project-based; licensing; ventures with permanent complementary roles; and joint ownership. The type of venture entered into may emerge as a function of its strategic importance to the parties and the extent of control sought by each party. It is recognized that globalisation of markets forces cost-effective and efficient responses, such as the development of alliances which enable MNEs to increase the scale of economies and scope without losing independence. According to Hendry
the three most common important reasons for forming alliances such as international joint ventures are: to expand a range of expertise or products; to assist in the development of specialist services or products required by customers; or to provide comparatively rapid access to new markets, and gain local knowledge and local market image. Cascio & Serapio (1991) also point out that international joint ventures enable an MNE to share costs such as research and development.

Lorange also points out that there are several HRM issues relevant to each type of cooperative venture. These include: assignment of executives; evaluation and promotion of managers; types of control systems used; organizational loyalty; and utilisation of time on strategic versus operational issues. Researchers such as Zahra & Elhagracey (1994) and Shenkar and Zeira (1987) have suggested that characteristics of the parent enterprises (e.g., composition of the workforce), system characteristics (e.g. product differentiation), and structural characteristics (e.g. size of the company) will influence the HRM strategies and practices employed. Several authors have shown, particularly utilising case study research, that there are important HRM implications to be considered in co-operative enterprises such as international joint ventures (Cascio & Serapio, 1991; Schuler, Jackson, Dowling, Welch & De Cieri, 1991; Schuler, Dowling, & De Cieri, 1992b).

While the forms of internationalisation discussed above have been dominant in the past, newer organizational forms include international new ventures (enterprises which are international from inception, as detailed by Oviatt & McDougall, 1994) and strategic inter-organizational networks. As organizations move from traditional to new forms of internationalisation, SIHRM policies and activities will need to reflect the requirements of these new forms (Fenwick & De Cieri, 1995; Hendry, 1994b; Torbiörn, 1994; Welch & Welch, 1993). Arguably the greatest complexity is to be expected in the case of strategic inter-organizational networks. The extant literature related to strategic inter-organizational networks recognises a heightened need for effective SIHRM, particularly considering the importance of collaboration and trust in such endeavours (Australian Bureau of Industry Economics, 1995b; Cauley De La Sierra, 1995; Jarillo, 1995; Limerick & Cunnington, 1993; Stafford, 1994; Thorelli,
Jarillo (1995: 7) has defined a strategic inter-organizational network as "an arrangement by which companies set up a web of close relationships that form a veritable system" which is oriented towards the provision of products or services in a coordinated manner. These networks differ from traditional international joint ventures as they are more likely to be "partnerships among equals" rather than strong-weak relationships. Such partnerships also often involve entire networks of alliances (Cauley De La Sierra, 1995; Hinterhuber & Levin, 1994). Further, Limerick (1992) has suggested that the strategic network, or "disorganization", is one way by which enterprises might resolve the enduring centralisation-decentralisation dilemma that has resulted in "an irreconcilable conflict between efficiency and responsiveness" (Limerick, 1992: 40). Recent Australian research supports claims by Jarillo (1995) that strategic inter-organizational networks feature in an increasing number of industries, and the statement by Limerick (1992) that such networks would characterise Australian business, both domestic and international, in the future (Fenwick & De Cieri, 1995).

Overall, effective management of exogenous and endogenous factors for MNEs typically involves a network of multiple (intra- and/or inter-organizational) units that recognise and respond to the often conflicting pressures for integration and local responsiveness (Bartlett & Ghoshal, 1992; Doz & Prahalad, 1991; Kobrin, 1991, 1992). These factors related to organizational structure and the choice of internationalization mode for the MNE, can be expected to hold implications not only for areas such as SIHRM, but also for overall organizational performance (Woodcock et al., 1994).

Headquarters International Orientation
An MNE's orientation toward SIHRM is determined, to some extent, by the orientation of MNE headquarters toward local unit staffing, which may be categorised as ethnocentric, polycentric, regiocentric or geocentric (Heenan & Perlmutter, 1979).
An *ethnocentric* approach to staffing results in all key management positions being held by parent country nationals. A *polycentric* staffing approach decentralises human resource management to each national location, resulting in host country nationals occupying management positions in the local units, while parent country nationals occupy positions at enterprise headquarters. *Regiocentric* staffing develops regional staff for key positions anywhere in that region, while a *geocentric* approach is one where the 'best' people are sought for key positions throughout the enterprise, regardless of nationality (Chakravarthy & Perlmutter, 1985).

An MNE may use any 'mix' of these approaches, whether deliberate or adhoc (Ondrack, 1985; Welch, 1994). The extent to which each approach is utilised within the MNE is influenced by: exogenous factors, such as socio-economic and political characteristics of the environments in which the MNE units operate (Evans, 1986); and endogenous factors, such as organizational culture of MNE unit (Schneider, 1986). The implications of these approaches for SIHRM have been indicated by several researchers, with substantial evidence of disadvantages experienced by MNEs utilizing ethnocentric approaches (Banai, 1992; Caligiuri & Stroh, 1995; Kopp, 1994). For example, Caligiuri and Stroh (1995) have tested these four approaches using data from 46 MNEs represented in Chicago. Their study found that differences in HR practices could be identified across these four approaches, although their sample size for each approach was admittedly small. Further, Caligiuri and Stroh (1995) found that these approaches were associated with a corporate success index, in that MNEs with an ethnocentric approach were less successful than MNEs with any of the other approaches.

**MNE Experience in International Business**

Another endogenous factor which has been suggested to be influential for SIHRM in MNEs is experience in managing international operations, or "the extent to which managers in an MNE are experienced in international operations" (Schuler et al., 1993: 450). Such experience may be connected with the MNE's stage of life-cycle (Dowling & Schuler, 1990; Tichy et al., 1982). As noted earlier, experience in
international business may be an influential factor in internationalization modes (Agarwal & Ramaswami, 1992). Dowling (1989) found a positive correlation between the length of time that an MNE had been involved in international operations and the complexity of their HRM function. Overall, MNEs with greater length of time in international business were found to have a more diverse set of HR practices than those MNEs with less international experience. This diversity of HR practices arguably reflects greater adaptation to local demands and greater local responsiveness across MNE units.

Schuler et al. (1993) presented 10 propositions which deal with the implications of endogenous factors for SIHRM, shown in Table 5.4. P7(a) to P7(d) discuss the implications of MNE organizational structure for SIHRM policies and practices. P8(a) to P8(d) discuss the implications of strategic predisposition for SIHRM policies and practices. P9(a) to P9(c) discuss the implications of MNE competitive strategy, in Porter's (1990) terms, for SIHRM policies and practices. P10(a) and P10(b) discuss the implications of MNE experience in international business for SIHRM policies and practices and organizational structure.

For each of these propositions, information could be gathered through contact with multiple informants and information sources within an MNE. These propositions would appear to require some detailed investigation; while a survey questionnaire could provide initial investigation of such issues, more valuable and detailed data could be gathered through a case study approach. For example, P7(a) to P7(d) are limited to broad MNE structural types; more detailed information regarding organizational structure could be obtained through survey and case study methodologies, to provide thorough investigation of these matters. Further, to fully investigate some of the propositions, such as P9(b) to P9(c) would appear to require data collection across all units of an MNE. For example, the focus of this thesis on information from headquarters in Australia and operations in the EU would restrict any information collected with regard to MNE competitive strategy to the strategic approach taken in the EU context [as covered in P9(a)]. Hence, the present study could provide exploratory investigation of P9(a), but not P9(b) or P9(c).
Table 5.4. Propositions Offered by Schuler et al. (1993) Relating to Endogenous Factors and SIHRM

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>P7(a)</td>
<td>MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
</tr>
<tr>
<td>P7(b)</td>
<td>MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
</tr>
<tr>
<td>P7(c)</td>
<td>MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.</td>
</tr>
<tr>
<td>P7(d)</td>
<td>MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
</tr>
<tr>
<td>P8(a)</td>
<td>An MNE’s headquarter’s international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations.</td>
</tr>
<tr>
<td>P8(b)</td>
<td>MNEs with a predominantly ethnocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which favor parent country employees.</td>
</tr>
<tr>
<td>P8(c)</td>
<td>MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which are oriented towards host country employees.</td>
</tr>
<tr>
<td>P8(d)</td>
<td>MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.</td>
</tr>
<tr>
<td>P9(a)</td>
<td>The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented HR policies and practices.</td>
</tr>
<tr>
<td>P9(b)</td>
<td>Units of MNEs that are pursuing the same competitive strategy will have HR policies and practices that are similar than units of MNEs that are pursuing different competitive strategies.</td>
</tr>
<tr>
<td>P9(c)</td>
<td>Units of MNEs that are pursuing the same competitive strategy will have more mechanisms to share and transfer their learning across units than units of MNEs that are pursuing different competitive strategies.</td>
</tr>
<tr>
<td>P10(a)</td>
<td>MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.</td>
</tr>
<tr>
<td>P10(b)</td>
<td>MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.</td>
</tr>
</tbody>
</table>


Cascio (1992) provides an example of research which has considered a broad view of exogenous and endogenous issues and concerns for international HRM practitioners.
He surveyed 110 senior human resources and industrial relations managers (in many parts of the world) for their views of current and future issues in international HRM. At the within-enterprise level, the major issues identified were: the role of HRM in international operations; managing a culturally diverse workforce; and the development of managerial talent in a global environment. The most important external issues were reported as: the impact of the social dimension of the European Union; human resource aspects of international alliances; and the future role of Japan.

Focusing more on endogenous factors, Dowling (1988, 1989) provides an example of research considering data on enterprise structure and practices, as well as identifying practitioners' views of important issues in international HRM. The approach and findings of Dowling's study provide some foundation for the approach taken in this thesis and the issues raised provide a benchmark for the measurement of changes in IHRM structure and practices in the intervening years.

Dowling's (1989) survey obtained information on the respondent's company, the structure of its international operations and international HRM function, and the identification of present problems and current issues in the field. Organizational structures covered a range from traditional subsidiary forms to matrix structures. The structure of the IHRM function also varied, reflecting degrees of centralization and decentralization. When asked about international HRM activities, the formalization was somewhat 'patchy'. For example, 55.6 per cent of the respondents reported formalized HR planning in their enterprise. Identification of major international HRM problem areas included compensation, particularly obtaining reliable data across MNE units and managing benefits; career development and training, particularly the need for crosscultural training and training for productivity improvement; managing environmental changes, for example through downsizing; and a lack of consistency in HR practice across MNE units, due to varying levels of expertise across HR specialists. With particular regard to expatriation, major issues included the need for staffing controls and the burden of administration (e.g. obtaining visas), and the management of repatriates.
Overall, the respondents' views of current issues in international HRM reflected the above areas of concern. Dowling commented that:

*Most of the factors reported by respondents reflect problems in both defining the role of international HRM and adapting well-established HRM activities such as compensation and staffing to an international context. A number of respondents also seem to believe that senior management does not have a clear understanding of the similarities and differences between international and domestic HRM* (Dowling, 1988: 252).

Whether MNEs should gear their SIHRM for specific environments, such as the European context, is debatable. What is clear from a review of the research literature is that attention to SIHRM is expected to improve MNE competitiveness overall (Brewster & Hegewisch, 1994; Florkowski & Schuler, 1994; Hendry, 1994a; Sparrow et al., 1994).

**Strategic International Human Resource Management Issues, Functions, Policies and Practices**

As Schuler et al. (1993) have explained in detail, SIHRM issues address an MNE's needs and challenges, both interunit and within unit. Decisions relating to levels of control, autonomy, and local responsiveness are seen as central to the integrative framework, as these decisions are often facilitated by SIHRM functions, policies and practices.

SIHRM functions reflect those functions already noted for domestic HRM: planning for human resource needs; recruitment and selection of employees; performance appraisal and reward management; improvement of the quality of work life and work environment, and employee development; and establishment and maintenance of effective working relationships (Dowling et al., 1994; Dowling & Welch, 1988; Schuler et al., 1992a). These functions require attention for all MNE employees, and are gaining recognition amongst Australian management as challenges requiring attention. As yet, Australian evidence of a strategic approach to HRM, or SIHRM,
in practice is limited, as is exemplified in the following examples. First, there is
evidence that human resource planning and succession planning are generally poorly
developed in Australian enterprises (Kane et al., 1994; Kane & Stanton, 1991).
Second, there is limited evidence of substantial investment in recruitment, training and
development in Australian enterprises (Lansbury & Niland, 1994; Smith, 1993). Third,
O'Neill (1995a, 1995b) has documented the nascent form of long-term compensation
programs that encourage and reward achievement of corporate goals. As has been
noted in Chapter 4, however, recent studies suggest that many Australian enterprises
are in a period of transition and change with respect to management issues, and, more-
particularly, with respect to HRM issues (Collins, 1994a, 1994b; Lansbury & Niland,
1994; Littler et al., 1994).

It is important to recognise that SIHRM functions, policies and practices are inter-
related; that is, the way in which one activity is done often influences the way in which
another is done. Dyer and Reeves (1995) have reviewed relationships between HR
strategies and organizational effectiveness. These authors have argued that bundles,
or configurations, of HR practices are more important in contributing to
organizational effectiveness than is any single HR activity. HR practices are said to
be bundled "when they occur in fairly complete, mutually reinforcing or synergistic
sets" (Dyer & Reeves, 1995: 657). It is arguable that not all bundles of HR practices
are equally effective -- some configurations of HR practices contribute more to
organizational effectiveness than others are able to do.

In the research field of SIHRM, HR functions and practices have received particular
attention with respect to expatriate management. The expatriation process may be
considered to involve five phases: planning, pre-departure, expatriation, pre-
repatriation, and repatriation. The SIHRM functions, policies and practices in each
of these expatriation phases are influenced by endogenous and exogenous factors (De
Cieri et al., 1996). For example, reward systems and compensation practices will be
influenced by exogenous factors such as host government requirements, national
cultural preferences (Gomez-Mejia & Balkin, 1991; Gomez-Mejia & Welbourne,
1991; Pennings, 1993) and endogenous factors, such as concerns for equity across
Arguably the most important, and certainly the most researched area of SIHRM functions, policies and practices is the management of expatriation (Black et al., 1992; Dowling et al., 1994; Ferner, 1994; Schuler et al., 1993). Expatriation may include the transfer of parent country nationals, host country nationals, and third country nationals who are employees of an MNE (Dowling et al., 1994). Expatriate relocation involves the transfer of these employees - and often their families - for work purposes, between two country locations and for a period of time that is deemed to require a change of address and some degree of semi-permanent adjustment to local conditions (De Cieri et al., 1996).

Expatriation or staff transfers may be utilised for a variety of organizational purposes. These include: to fill positions or solve staffing shortages; to exert parent enterprise control and coordination in local units; and to develop global capabilities in employees (Edström & Galbraith, 1977; Feldman & Thomas, 1992). For example, expatriation provides an opportunity for employees to gain international experience and knowledge. Kobrin (1988) has argued that expatriation is essential to maximise identification with and knowledge of the global enterprise by staff in all locations. In broad terms, the management of expatriates has both strategic and operational roles in MNEs. The process of expatriation has specific implications for the employees involved, human resource practitioners, and organizational strategy.

The major focus of SIHRM, or more specifically, expatriate management research has been upon internal concerns of SIHRM and the practices of MNEs (Black et al., 1992; De Cieri et al., 1996; Dowling et al., 1994). For example, Tung (1981; 1982) has identified selection criteria for various types of expatriate assignments and developed a selection decision model. Mendenhall, Dunbar & Oddou (1987), amongst others, have discussed the areas of selection, training and career-pathing. The expatriate partner and family have been considered in various studies (see, for example, De Cieri, Dowling and Taylor, 1991; Fukuda & Chu, 1994; Harvey, 1995). Repatriation has also received increasing attention (Black, 1991; Black et al., 1992; Oddou, 1991).
The first phase of expatriate management involves human resource planning. This is based in two major activities: first, planning and forecasting the enterprise's employment requirements; and second, analysing jobs in the enterprise to establish the required duties and the skills, knowledge and abilities (Greer, Jackson, & Fiorito, 1989; Huselid, 1993; Kane & Stanton, 1991). These two activities are of fundamental importance in the staffing and development functions of any enterprise and they provide the basis for many other HRM activities (Rothwell, 1995). Also, human resource planning in particular should be closely linked with the strategic planning for the enterprise overall (Golden & Ramanujam, 1985; Ulrich, 1992). While HR planning and succession planning have received considerable attention in HRM research, scant attention has been paid to the issue of succession planning between expatriate managers. Preliminary research has suggested that there are complex issues, quite distinct from those identified in domestic HRM literature, which are worthy of further investigation (Selmer & Luk, 1994).

Major issues in the pre-departure phase of expatriation include: determination of the assignment objectives; development of selection and performance appraisal based on these objectives; consensus on the compensation package of the expatriate; and the design and implementation of preparatory training and development initiatives: Each of these issues requires consideration of both organizational and individual needs (De Cieri et al., 1996; Guzzo, Noonan & Elron, 1993).

The international staffing function should be integrated with the enterprise's strategy. Staffing activities include the recruitment of job applicants and selection of the most appropriate person for the available job. The staffing function may utilise both the external labour market and the internal labour market when seeking to fill a position. Many efforts have been made to describe and prescribe expatriate selection factors that meet organizational objectives, with the assumption that certain factors are likely to be predictive of success in expatriation (Black et al., 1992; Brewster & Larsen, 1992; Oddou, 1991; Tung, 1981). The factors may be grouped as: strategic characteristics - characteristics or skills which fit the enterprise's strategic objectives directly; professional expertise - such as technical qualifications (which may be
necessary but not sufficient for success of the expatriation assignment); general managerial skills - such as leadership style; communication skills - such as host-country language proficiency; and individual characteristics - such as cultural tolerance (Black et al., 1992). Many criteria used for expatriate selection may be adapted from an employee's domestic work performance appraisal, and utilised in the management of expatriate performance (Oddou, 1991). The emphasis placed on each selection criterion may vary according to the context, which includes cultural and country norms, organizational characteristics, and task requirements (Tung 1981, 1982).

In the selection process, many enterprises also consider partner and family factors, such as the partner's career, personal attributes, and the educational needs of dependent children (Black et al., 1992; De Cieri et al., 1991; Harvey, 1995). These factors also affect employee decisions to accept relocation offers. Despite growing awareness of the importance of the family in expatriate selection, there remain complex issues related to incorporating the family into the selection process, including issues of privacy and informal knowledge. Also, while several predictors of success have been suggested, the measurement of these is yet to be refined (Dowling et al., 1994; Dowling & Welch, 1988).

These complications are exacerbated in the selection of host country and third country nationals, due to a number of factors, including: lack of local labour market knowledge; lack of knowledge of local education systems and qualifications; language and cultural differences; and attempts to transfer parent country staffing practices to different countries and cultures (Dowling et al., 1994). There are, however, both advantages and disadvantages in selecting parent, host, and third country nationals. These relate to: varying levels of control and coordination desired or possible; host government responses; overcoming language and cultural barriers; observing equal opportunity requirements; and impact on career paths of other groups (Dowling et al., 1994).

The MNE's approach to staffing will influence expatriate performance management and performance appraisals. An ethnocentric approach, for example, would lead to
standards typically set and administered by PCNs. In contrast, with a polycentric approach the standards are usually set and administered by HCNs (Dowling et al., 1994). Whichever approach is used, performance appraisal criteria for expatriate employees should be developed and agreed, to identify the goals of the assignment.

Possible performance appraisal criteria include: performance- or outcome-based criteria, such as market share; criteria based on interpersonal competencies; and personal competencies, such as negotiating skills (De Cieri et al., 1996; Janssens, 1994). Performance management may also take into account contextual elements, such as currency fluctuations which influence the financial performance of the local unit (Black et al., 1992). MNE objectives and the reliability of measurements will influence the choice of performance criteria (Brewster, 1991). The use of multiple performance criteria has been recommended, to reduce bias and to acknowledge the multi-dimensional nature of the MNE environment (Janssens, 1994; Oddou & Mendenhall, 1991; Vance et al., 1992).

Performance management issues may develop during the expatriate assignment. For example, there may be conflicting performance objectives expected by the parent and local units (Black & Gregersen, 1992; Feldman & Thomas, 1992). The problem of rater-bias, which also exists in domestic appraisals, is amplified in expatriate performance appraisals where the distance separating the parent company and local unit may result in inadequate information gathering. Effective performance appraisal of expatriates thus requires reconciliation of parent and host country appraisers' perceptions of performance objectives. Further, long term goals and appraisal criteria need to be flexible enough to cater for volatility in the international environment and changes in the strategic direction of the MNE units (Dowling et al., 1994). Performance management is not only important in maintaining the individual while on an assignment, but also in retaining the repatriate and establishing future performance objectives.

Compensation in MNEs also has both strategic and operational implications (Harvey, 1993a, 1993b). Indeed, writers such as Kessler and Purcell (1992: 17) have
demonstrated "the centrality of pay to the structure and operation of the employment relationship". Reward management in MNEs, particularly in expatriate management, entails a number of complexities. Reward systems may involve a base pay calculated on the basis of an evaluation of the job or skills held by an employee, performance-related pay, and various benefits. There are various systems and enterprises need to consider which form or mixture of base and performance-related pay is suitable for the employees (Geary, 1992; Grint, 1993; Kessler, 1995; O'Neill, 1995a). A major issue in compensation is equity between employees performing similar tasks and with similar knowledge, skills and abilities. For an MNE, considerations include variations in financial, legal, and customary standards and practices across all its locations.

International compensation policies are typically required to meet several organizational objectives, including: fairness and equity for all categories of employees; ability to attract, motivate and retain desired personnel; facilitation of transfer of employees in the most cost-effective manner; and consistency with organizational strategy, structure and needs (Black et al., 1992; Dowling et al., 1994). Expatriate compensation packages may include: base salary, expatriate premium, cost-of-living allowances, and additional fringe benefits. Taxation advice is often a prime consideration in relocation. With such complexities in mind, there appears to be some trends toward flexibility in compensation packages and cost containment (Kobrin, 1988; O'Neill, 1995a, 1995b).

For Australian-based MNEs, annual surveys of expatriate employers conducted by a consulting firm (Arthur Andersen, 1992, 1994, 1995) provide evidence that the most common system of expatriate compensation involves home-based policies, with the emphasis on 'keeping the expatriate whole'. This approach maintains relativity to home colleagues, with supplements for cost-of-living adjustments, housing, education, and other premiums (Reynolds, 1986, cited in Dowling et al., 1994). Home-based policies facilitate repatriation and may be the simplest method for shorter expatriation assignments. One disadvantage, however, of this approach is that inequities may be perceived by expatriates from different countries, in the one host location, being paid at different rates. Alternative methods include host- or region-based compensation
policies, each of which have advantages and disadvantages (Dowling et al., 1994). Overall, an important issue for MNEs is the extent to which the compensation system is customised to achieve local responsiveness, while maintaining some degree of inter-unit integration (Gomez-Mejia and Balkin, 1991; Gomez-Mejia and Welbourne, 1991).

For the SIHRM function of improvement of the quality of work life, an important consideration relates to expatriate training and development. Several authors have proposed models of training and development for expatriate managers, focusing to some extent on crosscultural training (e.g., Black & Mendenhall, 1990; Domsch & Lichtenberger, 1991; Mendenhall & Oddou, 1986; Tung, 1982). A common recommendation is that the level of rigour and time spent in training should be contingent upon factors such as the task, environment, individual, length of stay, level of integration into local culture, and cultural distance between home and host cultures (Black & Mendenhall, 1990; Mendenhall et al., 1987; Rahim, 1983). In addition, integration of management development with organizational strategy and staffing approaches may facilitate organizational development (Evans, 1992) and the development of a global cadre of expatriate managers (Scullion, 1995; Welch, 1994). Marginson et al. (1995), however, suggest that the development of 'international' managers is likely to be more salient to MNEs seeking to realize synergies in a global scale than to MNEs seeking realization of financial economies.

Both formal and informal training and development programs to prepare expatriate managers may include: crosscultural training; language training; discussions with managers with international experience; provision of audio-visual materials; preliminary site visits; mentoring programs; and succession planning (Feldman and Thomas, 1992). Many MNEs have increased the scope and scale of their training and development programs, incorporating efforts to enhance communication skills and sharing of corporate values. These programs may be linked to the use of multicultural teams. The ability to work effectively in teams is often seen as vital for the development of organizational-wide, crossnational effectiveness. Some researchers have suggested that the complex developments in the EU require such sophisticated
managerial development, in particular the development of 'managers of diversity' (Bournois & Chauchat, 1990).

With regard to employee development, Feldman and Thomas (1992: 289-90) suggest that:

the longer term issues of integrating the expatriate assignment into logical career paths can be as important as the shorter run issues of language training and pre-departure training in facilitating expatriate success.

The duration of pre-departure training may vary from one day to several years, depending on organizational factors, assignment type, and individual requirements (Mendenhall et al., 1995). In particular, cross-cultural training (CCT) has been advocated as important in developing effective interactions with HCNs (Deshpande & Viswesvaran, 1992). Black & Mendenhall (1990) reviewed 29 US empirical studies of CCT and found a positive relationship between it and the development of appropriate perceptions relative to members of another culture. CCT was also positively correlated with expatriate adjustment and performance. There are, however, moderating variables in the relationship between CCT and performance. These moderators may include: job characteristics; cultural novelty; the nature of interactions with HCNs. Similarly, moderators of the relationship between CCT and ability to adjust to a new culture might include: personality; organizational factors such as selection criteria; and the experience and qualifications of the trainer (Brewster & Pickard, 1994; Deshpande & Viswesvaran, 1992).

In the expatriation phase, several important quality of work life issues have been documented. These relate to the expatriate's adjustment to the new environment and conditions. As Black (1992) has documented, expatriation often requires individual adjustments to a local unit with an organizational culture quite different to that of the home enterprise, and to a societal culture different to that of the individual's home. The phenomenon of 'culture shock' has been well-documented for expatriates (Black, Mendenhall & Oddou, 1991; Harris & Moran, 1979; Torbiörn, 1982). This term
refers to the experience of psychological disorientation by people living and working in cultural environments radically different to that of their home. This may hinder the expatriate's ability to adjust to the new conditions (De Cieri et al., 1991; Ferraro, 1994).

Berry, Kim and Boski (1988: 63) have defined adjustment as a:

*process by which individuals change their psychological characteristics, change the surrounding context, or change the amount of contact in order to achieve a better fit (outcome) with other features of the system in which they carry out their life.*

The expatriate adjustment process affects the entire expatriate family (Black & Gregersen, 1991b; De Cieri, et al., 1991; Guzzo et al., 1993). Several empirical studies have identified a positive and significant relationship between reported adjustment of the expatriate spouse and reported adjustment of the expatriate employee (Black, 1988; Black & Stephens, 1989). Several researchers have investigated the psychological adjustment process of expatriation, often represented as a curve applicable to both expatriation and repatriation (Black & Gregersen, 1991a; Gertsen, 1991). Prior to departure, individuals typically increase their focus on the relocation, often due to the many arrangements required (Blue & Haynes, 1977). For many, expatriation initially involves a 'honeymoon' stage during which expatriates report a sense of novelty in their new location. This typically gives way to a feeling that 'the party is over', an experience characterised by unrealistically negative appraisals of the environment (Harris & Moran, 1979). This stage leads to a 'turning point' at which, ideally, expatriates become accustomed to the environment and make more realistic appraisals; the alternative here may lead to a crisis of inability to adjust. The fourth stage documented in psychological adjustment to relocation is 'healthy recovery' as expatriates accept and adjust to their new lifestyle and circumstances (De Cieri et al., 1996).

Schein's research into career movement (1971, cited by Feldman & Thomas, 1992), suggests that expatriates may encounter difficulty when establishing a position in the informal information and influence networks of the local unit. As the expatriate is on
the periphery both in terms of local culture and organization, informal networks and information most required by the expatriate (and the expatriate family) may prove difficult to access (De Cieri et al., 1996).

Similar difficulties may arise when an expatriate employee is faced with competing demands for commitment from the parent enterprise and the local unit (Banai & Reisel, 1993; Gregersen & Black, 1992). Black & Gregersen (1992) have identified four types of employee response to this dilemma and suggest that the most desirable is dual citizenship, in which case the employee develops strong dual commitment to both parent unit and local unit. While such dual citizenship may be desirable, empirical evidence of its achievement is limited (De Cieri et al., 1996).

Improvement of the quality of work life and work environment also includes practices and work features such as jobs designed with task variety, challenge and a match with employee interests and skills. Recent research indicates that employees and enterprises which develop harmonious and efficient work place labour-management relations are more likely to experience outcomes such as improved job satisfaction and organizational commitment (Brown, Reich, & Stern, 1993). Improving the quality of work life has been shown to contribute to reduced absenteeism and turnover of effective employees (Erwin & Iverson, 1994). The management of occupational health and safety (OHS) is also an important improvement activity. This involves consideration of the physical, physiological, and social-psychological aspects of work which may have an effect on employees' health. Recognizing factors such as legislative requirements and potential for improved organizational performance, the implementation and maintenance of comprehensive OHS programs are increasingly being adopted by many enterprises (De Cieri, 1991, 1995; Wolfe, Parker & Napier, 1994).

With respect to repatriate employees, MNE goals are generally to return and retain an employee able to contribute knowledge, experience and networks gained overseas (Forster, 1994). Despite such goals, there is evidence which suggests that, in many MNEs, insufficient attention is paid to this phase of the expatriation process (Forster,
Black and Gregersen (1991c) found that 'repatriation shock' may be greater than the culture shock experienced during expatriation, and has three inter-related facets: adjustment to work, adjustment to interacting with home nationals, and adjustment to the general environment and culture.

In their review of expatriate management issues, De Cieri et al. (1996) noted a number of repatriation problems identified in the literature. Particular difficulties may arise if career aspirations are not realised upon return (Feldman & Thompson, 1993). Repatriates have reported frustration when placed in a 'holding pattern' without a clear assignment nor set of responsibilities (Harvey, 1982, 1989). This may be combined with frustration based on an inability to use new skills and experience gained through an expatriate assignment. For example, a U.S. study of 126 repatriates and 76 spouses found that role clarity had a significant positive relationship with work adjustment (Black & Gregersen, 1991c). Additional potential problems for repatriates include: loss of autonomy; restriction of career path; lower prestige and status of repatriate assignments; and removal from the mainstream of corporate advancement while an expatriate (Gomez-Mejia & Balkin, 1987; Tung, 1988).

Repatriation shock and career problems have also been reported by repatriate spouses. Across a number of countries, it has been found that a high proportion of repatriate spouses do not return to work, at least for some time after their return (Black & Gregersen, 1991c; De Cieri et al., 1991). In addition to work-related adjustment, the repatriated employee and family face re-entry to social networks, changes in the political and economic environment, and often accepting a reduction in lifestyle as expatriate allowances are removed (De Cieri et al., 1996). If spouse and expatriate adjustment are significantly related (Black & Gregersen, 1991b), it is arguably in the MNE's interest to assist with family adjustment. Further, Gregersen's (1992) work suggests that, without adequate attention to the above repatriation issues, expatriate commitment to the parent enterprise may decrease, particularly in pre-repatriation and repatriation phases.
Poor repatriation management may cause difficulties beyond the employee in question. Potential expatriates within the MNE may observe repatriate difficulties, conclude that expatriation is detrimental to one's career and decline expatriate assignments (Black & Gregersen, 1991a; Harvey, 1982). In turn, the MNE may encounter difficulty finding suitably qualified candidates for expatriation. As less suitable candidates are sent on expatriate assignments, a 'downward-spiralling vicious cycle' results (Black & Gregersen, 1992) with long-term consequences for international operations.

To overcome the identified problems and manage repatriation more effectively, documented MNE approaches include: pre-departure training and development which includes repatriation planning; written job guarantees; sponsors or mentors for expatriates; pre- and post-return counselling; and financial counselling and short term assistance (De Cieri et al., 1996; Guzzo et al., 1993).

Australian empirical evidence of expatriate management policies and practices is not abundant (Dowling & Welch, 1988; Dowling et al., 1994; Fish & Wood, 1993). Dowling and Welch (1988) reported on case studies of 4 large MNEs utilising Australian expatriates. Overall, their expatriate management policies showed incorporation of several features to benefit individual and organizational goals, yet there remained considerable room for improvement. A recent survey of 88 Australian MNEs by Davidson and Kinzel (1995), however, has reported a wide variability in practices. Australian MNEs appear to be relatively generous in terms of financial inducements for expatriates (although less so than American MNEs). With regard to SIHRM functions such as training and development, or general support for expatriates, however, the findings were less positive, particularly when compared with data from the US survey upon which the study was based (Guzzo & Noonan, 1992, cited in Davidson & Kinzel, 1995).

Although the growing literature on SIHRM has largely focused on managerial employees, with much less attention paid to the implications for labour and trade unions, effective SIHRM also entails the establishment and maintenance of effective working relationships with employees. This includes recognition of employee rights,
and bargaining the terms and conditions of employment with employees and the organizations representing them, such as trade unions (Clarke & Bamber, 1994; Enderwick, 1984; Marginson, 1992; Marginson & Sisson, 1994; Martinez Lucio & Weston, 1994).

For non-managerial employees, who are more likely to be local and national in their focus, there are complex implications of MNE strategies (Boxall, 1992; Ferner, 1994). Industrial relations issues are both exogenous, as the regulatory environment will reflect the culture and structure of industrial relations in countries of MNE operation, and endogenous, as an enterprise will develop relevant policies for management-labour relations. MNE policies must take into account the regulatory environments in which the enterprise operates (Florkowski & Nath, 1993). MNEs can also be viewed as strategic actors in the internationalization of industrial relations, as they seek to manage and negotiate with labour on issues which cross national borders. MNEs act as conduits for new management practices and production methods such as lean production and continuous improvement (Allen, 1993). One example of the development of an international policy for industrial relations can be seen in the introduction of employee involvement across Ford's operations (Starkey & McKinlay, 1993). The economic power of MNEs also provides them with political leverage, used in lobbying. While it is recognized that MNEs are "neither uniformly anti-union nor omnipotent and monolithic bureaucracies" (Allen, 1993: xii), their potential for lobbying power and flexibility across national borders creates difficulties for employees and trade unions endeavouring to develop countervailing power.

Bean (1994) suggests that some MNEs have attempted to export domestic industrial relations policies. In Britain, several US MNEs have been reported as having attempted to export their parent country policies by refusing to join employer associations and refusing to recognize unions. Purcell et al. (1987, in Bean, 1994) found that foreign-owned MNEs in Britain preferred single-employer bargaining (rather than involving an employer association), and were more likely than British firms to assert managerial prerogative on matters of labour utilization. Ferner and Hyman (1992b, in Bean 1994) provide evidence of US MNEs preferring direct
employee involvement in their Italian subsidiaries, eschewing union recognition. Interestingly, an ethnocentric predisposition is more likely to be associated with various forms of industrial relations conflict (Bean, 1994; Marginson, 1992). Conversely, Martinez Lucio and Weston (1994) have argued that more geocentric MNEs will bear more influence on host country industrial relations systems, due to their propensity to act as agents of social change and increased participation in local circumstances.

An important factor for the conduct of industrial relations in MNEs is the extent of influence of the national product/service market. For MNEs from smaller parent bases, such as Australia, foreign subsidiary operations can represent a major part of their total business. This may result in adaptation to host-country institutions and conditions being viewed by corporate management as more acceptable (or prudent).

MNEs present trade unions with a range of problems and opportunities (Schlossberg, 1990). There are several ways in which MNEs have an impact upon trade union and employee interests. As MNEs operate across national borders and therefore across national industrial relations systems, they can represent a destabilizing force in industrial relations. A power imbalance can be anticipated where there are asymmetrical relationships between MNE management, employee representatives and governments (Bean, 1994). With regard to the EU integration, it has been predicted that several challenges and difficulties lie ahead for national and industry-level unions (Mahnkopf & Altvater, 1995; Reder & Ulman, 1993). The changing environment and contextual forces in post-integration Europe will require the trade union movement to transform to some extent, in order to determine and implement appropriate forms of action to survive in the new reality. A number of major threats posed by MNEs to trade unions have been identified.

While many MNEs report decentralization and local responsiveness of HRM and industrial relations, trade unions and works councils have reported that the MNE decision-making structure is opaque and the division of authority obscured. Further, employee representatives may not be adequately aware of the overall MNE
organizational strategy and activities (Mahnkopf & Altvater, 1995; Purcell & Sisson, 1993). This issue is pertinent to Australian MNEs, as recent research noted in Chapter 4 has indicated that there is limited use of consultative processes mechanisms in Australian organizations (Callus et al., 1991; Lansbury & Niland, 1994).

Marginson et al. (1995) investigated the potential consequences of MNE strategies for the management of labour, using a 1992 survey of MNEs operating in the United Kingdom. The emergence of organizational structures which transcend national borders was found to be likely to bring increased likelihood that strategic decisions, which affect the interests of employees, will be taken beyond national jurisdictions. As Marginson et al. (1995: 704) suggest:

Employees and their representatives, faced with scaling down or closure of their plant, have few rights to be informed or consulted about the cross-border dimensions of such corporate restructuring.

Further, Marginson et al. (1995) noted a drift away from collective bargaining, which was more pronounced among MNEs with integrated HRM structures (rather than local responsive, decentralized approaches to HRM).

Trade unions have claimed that they have difficulty accessing decision makers located outside the host country and obtaining financial information (Bean, 1994). The propensity of MNE headquarters to intervene in matters such as industrial relations in host locations is influenced by several factors. Greater intervention would be expected when the subsidiary is of key strategic importance to the MNE, the MNE has less experience in international business, the MNE has less product/service diversification, and the subsidiary is young (Enderwick, 1984). Across all MNE managerial functions, HRM and industrial relations are arguably the most likely to be decentralized, due to the need for local responsiveness to host country cultural issues, industrial relations systems, and regulatory frameworks. Decentralization may also be influenced by the national origin of the MNE. Hamill (1984a, 1984b) found that British MNEs exercised less centralized control over industrial relations matters than did US MNEs. Comparing US and European MNEs, Hyman and Ferner (1992b in Bean, 1994) suggest the latter have a looser relationship between headquarters and
subsidiaries, and a greater willingness to accept local managers' judgments.

Remote decision-making and attempts to export parent country policies to subsidiaries have been suggested to be associated with higher incidence of industrial disputes in host locations, although this is mediated by the size of the MNE. Larger MNEs tend to have a better record of industrial disputes than do local firms of comparable size (Bean, 1994). In this matter, as in many others, however, MNEs do not represent a homogeneous sample.

A reported concern of employees and trade unions is that job security may be threatened if an MNE seeks to produce abroad what could have, or previously has, been manufactured domestically. Empirical evidence cited by Bean (1994), however, suggests that for industrialized market economies, there has not been a decrease in employment volume in parent countries related to MNE expansion of operations. National relative advantages do, however, provide MNEs with choice as to location of units. Within the EU, for example, evidence suggests that skill-intensive activities are being located in countries with national policies promoting training and with relatively high labour costs. Conversely, semi-skilled, routinized activities are being located in countries with lower labour costs (Marginson et al., 1995). Union bargaining power may be threatened or weakened by the broader financial resources of an MNE. This is particularly evident where an MNE has adopted a practice of multiple sourcing and cross-subsidization of products or components across different countries. "The economic pressure which a nationally based union can exert upon an MNE is certainly less than would be the case if the company's operations were confined to one country" (Bean, 1994: 191). Threats, real or perceived, by MNEs to reorganize production factors internationally, with the accompanying risk of plant closure or rationalization, has a major impact on management-labour negotiations at a national level (de Nijs, 1995). It is recognized that technical and economic investments would reduce an MNE's propensity to relocate facilities, although temporary switching of production in order to defeat industrial action is perhaps more feasible (and has in fact been utilised to some extent, for example in the automotive industry) (Bean, 1994).
Comparison of performance data across MNE national units creates the potential for decisions on issues such as unit location, capital investment, and rationalization of production capacity to be used coercively, to extract concessions from local workforces (Allen, 1993; Martinez Lucio & Weston, 1994). The use of comparisons would be expected to be greatest where MNE units in different countries undertake similar operations (Marginson et al., 1995). For example, Marginson et al. (1995) found that the majority of MNEs they surveyed monitored labour performance across units in different countries. Allen (1993) also argues that MNEs may use dubious international comparisons of costs and productivity to justify demands for increased productivity and intensified work practices.

One consideration for MNEs would be the observance of international labour law (Florkowski & Nath, 1993), the most important sources for which are the norms promulgated by the International Labour Office (ILO) (International Labour Office, 1973, 1977, 1991). The ILO was established in 1919 with a fundamental principle that "labour should not be regarded merely as a commodity or article of commerce" (Article 427 of the Treaty of Versailles, cited in Bercusson, 1995: 5). ILO norms cover a wide range of issues, although the standard of norms adopted often reflects the lowest common denominator and the mechanisms for enforcement of ILO norms have been criticised as inadequate (Bercusson, 1995). Codes of conduct prepared by the ILO, and those developed by the OECD (Blanpain, 1985; Campbell & Rowan, 1983), encourage MNEs to recognise unions and develop industrial relations practices which are consistent with those of the host country. Observance of these guidelines is, however, voluntary, not mandatory, so their impact upon industrial relations may be limited (Bean, 1994). Further, these guidelines neither explicitly nor implicitly refer to transnational bargaining (due to the diversity of views amongst the Governments and social partners involved). Overall, due to weaknesses in international labour norms and the frequent European institutional blockages of proposed norms, the impact of international labour law and organizations such as the ILO on labour law in the EU has been relatively minor (Bercusson, 1995; Campbell, 1989).

Thus, the EU Maastricht Agreement can be seen as an innovation in this area,
although it admittedly does not include precise rules which legally organise and monitor the different juridical questions which are raised in European collective agreements (Blanpain, 1992). In the absence of such specific rules, an interesting question which arises is that of which laws should apply to a European collective agreement. Where the European law is insufficient, it would appear necessary to turn to national law (Blanpain, 1992).

Recognizing the threats MNEs may pose to trade unions, there may admittedly be considerable constraints upon actions available to any MNE. While there have been a number of cases of plant or departmental closures in Belgium, the Netherlands and France, there have been fewer in Germany, where the works council system and worker representation on company boards offers some protection against such management action (Bean, 1994). Greater legal prescription of industrial relations in Germany would thus suggest there might be fewer threats to unions there than in the U.K., for comparison. For Sweden, the strength of employer associations and unions, and their prominent roles in national industrial relations, would increase the likelihood of any large MNE to join the employer association and to recognize unions (Bean, 1994). An additional constraint on the behaviour of MNEs is their high visibility (Botan, 1992), which makes them perhaps more sensitive to public opinion than local enterprises.

One form of union response to the relatively lower bargaining power of labour when dealing with MNEs and difficulties in gaining access to MNE decision makers has been to utilize the services of International Trade Secretariats, which comprise unions grouped by industrial categories. Another institutional form of international coordination is via international federations of national trade union federations, which tend to have more political orientations than secretariats. In addition to the possibilities for international collective bargaining brought by these institutional forms, international union actions include more informal mechanisms. The most prevalent of these has been the exchange of information regarding terms and conditions of employment across MNE subsidiaries. Other international union activity includes international sympathy strikes (however limited by legal constraints),
and multiple, concurrent negotiations with an MNE in several host countries. A sophisticated activity would be fully integrated negotiations around common demands aimed at parity of terms and conditions across MNE units (Marginson, 1992; Martinez Lucio & Weston, 1995).

While international unions are not a new phenomenon, there has been little evolution of international trade union activity until recently, and much of this activity has taken place in the EU. The development of the Single European Market, with concomitant creation of a European political forum, has instigated some moves towards development of a European system of industrial relations: encompassing MNEs, employers associations, and trade unions across national borders. It is premature, however, to conclude there will be inevitable convergence between national patterns of industrial relations across the EU (Marginson, Buitendam, Deutschmann & Perulli, 1993; Martinez Lucio & Weston, 1995).

It remains the case that barriers to international industrial relations are significant and the advantage held by MNEs is enduring (Blanpain, 1992). Difficulties are also due to the fragmentation and power structures within national union movements. National differences in economic, social and legal environments, even within the integrated market of the EU, remain formidable (Marginson, 1992; Marginson et al., 1993).

Overall, it is argued that MNE senior management need to recognise the strategic importance of SIHRM issues, functions, policies and practices. For example, top management support is necessary to ensure adequate planning and preparation for expatriate assignments, and accurate forecasts of staffing needs throughout the MNE network (Davidson & Kinzel, 1995; Kobrin, 1994). Of particular note is the variety of important issues related to SIHRM which emerge as an MNE's international operations and staffing approaches evolve.

**MNE Concerns and Goals**

Previous research (Dowling et al., 1994; Kobrin, 1994; Sundaram & Black, 1992) has
consistently indicated that MNEs will gain by utilising and integrating appropriate SIHRM strategies and practices, to enhance overall strategies and performance. These organizational characteristics could be expected to be linked not only to the SIHRM strategies and practices, but also with organizational strategy and enterprise performance, or 'bottom-line'. Debate in the HRM literature regarding these relationships has already been noted (Lengnick-Hall & Lengnick-Hall, 1988; Storey, 1992a). Schuler et al. (1993) identify typical MNE goals as including: competitiveness, efficiency, local responsiveness, flexibility, and learning and transfer. It is acknowledged that these concerns and goals will vary across specific MNEs (Bartlett & Ghoshal, 1992; Porter, 1986, 1990).

**Summary**

The conceptual framework of HRM offered by Beer et al. (1984) has received much attention and general acceptance in the HRM literature. Development of the strategic role of HRM has also been developed in theoretical terms (Wright & McMahan, 1992). It has been argued that, for strategy implementation to be achieved effectively, an understanding of, and commitment to, organizational strategy is required of organizational members (Purcell & Ahlstrand, 1994; Schuler & Jackson, 1987). A number of frameworks have been reviewed, for the purpose of charting the evolution of thought and research in HRM, towards SIHRM. For MNEs this is a complex task, as it assumes input across all levels and locations of the organization. Schuler et al. (1993) have argued that SIHRM activities should be integrated with the strategic concerns of the MNE. They have presented an integrative framework of SIHRM and a series of supporting propositions to stimulate research in this area.

Future directions for SIHRM in practice may be expected to be influenced by exogenous factors such as the EU Treaty of Maastricht & related directives, endogenous factors, such as organizational strategy or organizational structure, and changes initiated through SIHRM issues, functions, policies and practices.
CHAPTER 6.
RESEARCH DESIGN AND METHODOLOGY

Objectives of this Chapter

This chapter has three objectives. First, the chapter explains the rationale for the research design. Second, the research questions and propositions for this thesis are stated. Third, each step of the research methodology by which these questions and propositions will be investigated is explained. This also involves explanation of the methodological principles which guide this research design.

Rationale for the Research Design

This thesis is concerned with describing how exogenous and endogenous factors interact with SIHRM issues, functions, policies and practices. The reviews of the external environment (the European Union [EU] and Australia) and the SIHRM literature (Chapters 2, 3, 4 and 5) dealt with both theoretical and methodological issues. The review of extant literature in the HRM and SIHRM fields has shown that there has been increasing research attention in these areas over the past decade. Empirical work dealing with SIHRM issues is scant, however, and theoretical development of SIHRM is in its infancy. This thesis aims to provide an exploratory empirical study of factors involved in and related to SIHRM, to assist in the development of the conceptual foundation laid by Schuler et al.'s (1993) framework.

The aim in this thesis is to provide an exploratory study -- building on existing knowledge and postulated relationships, yet being open and receptive to new patterns, relationships and phenomena. It is intended that the research findings may be
interpreted directly, without excluding any variables at the outset. This investigative approach enhances flexibility, in order to allow for the possible discovery of new relationships or even new variables (Van Maanen, Dabbs & Faulkner, 1982). While it is recognised that the researcher's own paradigm of beliefs will influence the design and interpretation of this thesis, the open approach taken is intended to limit the effect of the researcher's bias (Denzin & Lincoln, 1994). In particular, the guiding principles for this research require the building of relationships with mutual respect and collaboration, that are non-coercive and non-manipulative, between the researcher and those who participated (Denzin & Lincoln, 1994). This research aims to identify patterns and trends which may be interpreted as relationships between exogenous factors, endogenous factors, and SIHRM issues, functions, policies and practices. Thus, the data analysis aims to identify common themes or issues within and across enterprises, and further to identify possible areas of difference.

Testing the Conceptual Framework

The review of contextual and theoretical literature was fundamental to the understanding of the variables presented in Schuler et al.'s (1993) framework. Their framework has provided a basis for the development of research questions and propositions. Schuler et al. (1993) offered a framework intended to be of relevance and usefulness to both academics and practitioners. This approach is similar to that advocated by Beer et al., who described: "a framework for thinking [about] and managing human resources that general managers will find useful" (1984: x). Schuler et al. (1993) endeavoured to integrate the various theoretical perspectives presented by researchers such as Wright and McMahan (1992), rather than being committed to any particular theoretical perspective. Based on a review of conceptual and empirical literature, the framework encompassed the authors' views of the elements involved in SIHRM and suggested relationships among the variables deemed to be important to the dynamics of SIHRM. The framework was intended to enable postulation and

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23 In accordance with the *University of Tasmania Research Higher Degrees Handbook* (1996), a copy of the article by Schuler et al. (1993) is attached at Appendix 4.1.
testing of these elements and their relationships, so as to improve our understanding of the dynamics of the situation (Sekaran, 1992).

The variables included in the framework were identified and explained in Chapter 5 to provide the reader with an opportunity to visualise the variables and their possible relationships. Schuler et al. stated clearly that: "because the exact nature of the possible relationships among these factors can be debated, we offer them here as independent factors subject to empirical investigation" (Schuler et al., 1993: 427). Thus, this framework was central to examining the issues under investigation in this thesis.

As is the case for other models offered in recent international management research, this framework is tentative and will require several iterations before its precision could approach the complexity of the explananda (Redding, 1994). The testing of the framework undertaken in this thesis further utilises the extant literature and adds original empirical investigation to test the relationships suggested in the framework. The process of scientific inquiry "in practice typically involves an alternation between deduction and induction" (Babbie, 1992: 53). It is recognised that the development or iteration of conceptual frameworks, by definition, requires recourse to the extant literature and further attention to overcoming these limitations (Babbie, 1992; Sekaran, 1992). Further, the research process of exploration and integration of concepts (Miles & Huberman, 1994; Richards & Richards, 1993) is an important aspect of the overall process of scientific inquiry.

Problems and Progress in International Management Research

Although the field of cross-cultural and international management research has made several important steps forward, inadequacies remain (Sekaran, 1983; Tayeb, 1994). Two decades ago, Schollhammer (1975) criticised the international and comparative management research field for being descriptive and lacking in analytical rigour; ad hoc and expedient in research design and planning; self-centred in the sense that the existing research literature is frequently ignored; and lacking a sustained research
effort to develop case material. Subsequent authors have maintained such criticism, adding that theoretical development is scant, empirical research has suffered from over-simplification, and narrow perspectives have permitted parochialism to survive in this field (Arvey, Bhagat & Salas, 1991; Nasif, Al-Daeaj, Ebrahimi, & Thibodeaux, 1991; Redding, 1994). These criticisms continue to hold validity, although there is some evidence of progress made (Redding, 1994).

The research fields of organizational behaviour and human resource management have received criticism for their increasing focus on the micro-level (Collins, 1994a; De Cieri & Dowling, 1995; De Cieri et al., in press). In particular, within organizational behaviour research, the micro perspective is focused on psychological phenomena with the individual as the unit of analysis, while the macro approach focuses on socioeconomic features of organizations. A weakness of single-level research which has implications for the international management field is that cross-cultural research which is focused on only the micro level may encounter the possibility of errors due to an inability to recognise the difference between *emic* and *etic* issues (De Cieri & Dowling, 1995). An *emic* approach to research attempts to describe a particular culture by investigating culture-specific aspects of concepts or behaviors, based on historical and social developments that have influenced people. In contrast, an *etic* approach attempts to use variables which are generalizable across cultures to study social phenomena in relatively culture-free (culture-common), universal terms (Bhagat & McQuaid, 1982).

**Development of an Integrative and Multidisciplinary Approach**
There has been longstanding advocacy of multidisciplinary approaches in international management research (Redding, 1994). This thesis attempts to contribute to this endeavour by investigating research questions and propositions based on the integrative conceptual framework presented by Schuler et al. (1993). It is hoped that this will make a valuable contribution to the understanding of phenomena typically considered in different disciplines. In particular, the exogenous factors identified in the framework are, in the context of the EU, drawn from legal, economic and political
disciplines.

The framework offered by Schuler et al. (1993) recognised previous calls for integrative (Hendry & Pettigrew, 1990) and multidisciplinary (Roberts, Hulin & Rousseau, 1978; Rousseau & House, 1994; Sundaram & Black, 1992) approaches to investigation of dynamic relationships between variables both endogenous and exogenous to an enterprise. The framework allows for investigation of the interaction of exogenous and endogenous forces which inform the choices of integration and differentiation between MNE units, and ultimately the realisation of MNE goals. Further, the framework allows for integrative investigation of variables across macro and micro levels.

This integrative, multidisciplinary approach in the international context echoes the meso paradigm proposed by Rousseau and House (1994). This paradigm of meso organizational research integrates the micro and macro perspectives:

Meso used in the context of research refers to an integration of micro and macro theory in the study of processes specific to organizations which by their very nature are a synthesis of psychological and socioeconomic processes (Rousseau and House, 1994: 14).

This paradigm recognises that macro and micro level factors cannot be considered in isolation nor treated separately. The SIHRM issues, functions, policies and processes studied in this thesis provide excellent examples of meso processes.

It is well recognised that MNEs are often so complex as to make it extremely difficult to identify an appropriate organizational level at which to direct study. Such complexity may make the activities rather than organizational units the better target of study (De Cieri & Dowling, 1995). This shift in attention from "traditional organizational units to organizational activities creates the need to integrate micro and macro processes in the study of organizations" (Rousseau & House, 1994: 17). Increasing pressures of international competition have led many MNEs to develop more flexibility in form, requiring and reinforcing integration of macro and micro elements (Bartlett & Ghoshal, 1992). Thus, distinguishing between macro and micro
elements is not sustainable in a competitive international context. Likewise, research which has treated macro and micro as separate elements would fail to address the need for recognition of emerging integrative capacities in MNEs.

There is increasing recognition of the inter-dependencies and influences across organizational levels, and the need for linkages between organizational parts. The integrative research approach is most likely to be focused on networks, routines or relationships, thus moving beyond the traditional units of OB analysis (individuals and groups). With regard to cross-cultural research, Nasif et al. have noted the desirability for multi-level and cross-level research to achieve a "more comprehensive and integrative perspective of organizational phenomena" (1991: 88).

The development of an integrative framework for SIHRM requires attention to both theoretical development and research design to overcome the limitations apparent in the literature. Redding (1994: 348) has supported Ragin's (1987) suggestion that qualitative comparative analysis, in which "wholes may be compared as configurations of parts" would integrate the case-oriented and the more quantitative variable-oriented research approaches to permit research to accommodate the complexity of social phenomena in the international context.

The research design of this thesis is anticipated to provide exploratory empirical research, utilising multiple methods of research to test validity of findings, and enabling theory development. Important considerations included efforts to overcome methodological problems and to build upon an integrative framework with theoretical rigour and concrete operationalization of terms (Rousseau & House, 1994). Thus, this thesis aims to operationalize an integrative approach to theoretical and methodological advancement in the SIHRM field.

This thesis involves an iterative process: both deductive and inductive (Babbie, 1992; Eisenhardt, 1989; Strauss, 1987). This iterative approach reflects the embryonic stage of development of theory and empirical research in the SIHRM field. It is recognised that the thesis findings would be suggestive rather than conclusive. Indeed, this is
considered to be a strength of the research design, in that this approach emphasizes exploration of the processes involved in the relationships between variables under investigation. Field investigation, to study the phenomena, was therefore integral to this thesis (Yin, 1989; 1994).

Research Questions and Propositions

In the preceding chapters of this thesis, a range of exogenous issues were raised relating to the implications of the EU social dimension for SIHRM in Australian MNEs with business in that market. In addition to these issues, possibly influential endogenous factors were identified. These included: organizational strategy, structure and experience in international business. Further, strategic MNE components and related SIHRM issues of competing forces for integration and local responsiveness were identified. The review of HRM and SIHRM literature in Chapter 5 also identified the categories of SIHRM functions, policies and practices: planning for human resource needs; recruitment and selection of employees; performance appraisal and reward management; improvement of the quality of work life and work environment, and employee development; and establishment and maintenance of effective working relationships (Schuler et al., 1992a). These categories are utilised so that the present study is aligned with previous work in this field. This is not intended, however, to prevent the possible discovery or emergence of another area, or different grouping of activities which relate to SIHRM.

Given the iterative approach to this research, combining deduction and induction, operational parameters are deemed necessary. Setting these parameters for this empirical investigation is intended to minimise the risk of the researcher becoming overwhelmed by the volume of data collected (Miles & Huberman, 1994). The operational parameters are defined by the specific research questions posed in this thesis, following Eisenhardt's (1989) recommendation for research questions derived and refined from the extant literature. These research questions are supported by relevant propositions selected from those offered by Schuler et al. (1993) with
The context of the EU social dimension and SIHRM in Australian MNEs will be investigated through broad research questions, in conjunction with an investigation of the framework and propositions offered by Schuler et al. (1993). The research questions enable inductive exploration in the field research, utilizing both quantitative and qualitative data. The research propositions will be operationalized and then matched with a body of quantitative and qualitative data (Miles and Huberman, 1994).

Research Questions Generated for this Thesis
To provide focus on the specific context of this thesis, four related research questions are postulated. Reflecting the exploratory nature of this research, these questions are open-ended, to allow for the emergence of new insights into the phenomena under investigation:

Q1. *In what ways are environmental factors such as government actions, regional economic activity, and cultural diversity, influential for Australian MNEs operating in the EU?*

Q2. *What will be the implications of the EU Social Dimension for Australian MNEs operating in the European Union?*

Q3. *What are seen as the key current and emerging issues related to SIHRM for Australian MNEs operating in the EU?*

Q4. *What empirical evidence is there of SIHRM in Australian MNEs operating in the European Union?*

These research questions have been generated on the basis of the literature review and refined with the feedback from the pilot study. They will be investigated through the survey and case study findings, with consistent application across all cases of data collection.
Research Propositions

It has been noted that Schuler et al. (1993) supported their framework with a set of 34 propositions regarding the relationships between the identified variables. The propositions were offered as tentative statements (Schuler et al., 1993) to allow for discovery of unpredicted phenomena or relationships (Eisenhardt, 1989).

Given the extremely broad scope of the framework and the embryonic stage of SIHRM research, it is feasible to envisage that researchers may elect to focus on some framework elements and research propositions for further investigation in specific research projects. Hence, not all propositions may be examinable in all research projects. This is arguably the case for the present study. The focus on the parent country and one host region, namely the EU, excludes possible data collection in other locations in which MNEs may operate. Hence, the research intent of this thesis does not require nor permit investigation of all of the 34 propositions presented by Schuler et al. (1993), as shown in Chapter 5. The focus of this thesis, on information from headquarters in Australia and operations in the EU, was intended to investigate the implications of a given context (the EU) for SIHRM. For the purposes of this thesis, 16 propositions selected from Schuler et al.'s (1993) work have been identified as appropriate for investigation. The propositions which will be investigated in this thesis are shown in Table 6.1.24 Investigation of these selected propositions will provide testing of the general conceptualized relationships important in SIHRM.

The propositions dealing with the relationship between the exogenous variables of environmental change [P5(a) and P5(b)] will be initially investigated through surveys and through case studies. Propositions dealing with legal and socio-cultural differences [P6(a) to P6(c)] will be investigated through case studies. This approach is appropriate as specific and detailed information is required to measure the

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24 As stated in Chapter 1, this thesis has research questions numbered 1 to 4. As the propositions selected for investigation in this thesis begin with P5(a), the original numbering of research propositions provided by Schuler et al. (1993) has been retained. Hence, the numbering of research propositions shown in this thesis matches the numbering used by Schuler et al. (1993). It should be noted that P9(b) and P9(c) are not included in this thesis investigation.
relationship between such complex exogenous variables and SIHRM activities.

Table 6.1.
Selected Propositions offered by Schuler, Dowling and De Cieri (1993)

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>P5(a)</td>
<td>The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to SIHRM issues in attempts to control and minimize risk and increase certainty and predictability.</td>
</tr>
<tr>
<td>P5(b)</td>
<td>The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
</tr>
<tr>
<td>P6(a)</td>
<td>The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
</tr>
<tr>
<td>P6(b)</td>
<td>The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
</tr>
<tr>
<td>P6(c)</td>
<td>The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
</tr>
<tr>
<td>P7(a)</td>
<td>MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
</tr>
<tr>
<td>P7(b)</td>
<td>MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
</tr>
<tr>
<td>P7(c)</td>
<td>MNEs with a global structure will be concerned with SIHRM issues that primarily focus on the selection of managers who are concerned about global operations operating under centralized control and direction.</td>
</tr>
<tr>
<td>P7(d)</td>
<td>MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
</tr>
<tr>
<td>P8(a)</td>
<td>An MNE's headquarter's international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations.</td>
</tr>
<tr>
<td>P8(b)</td>
<td>MNEs with a predominantly ethnocentric orientation will develop SIHRM policies and practices regarding staffing, appraising, compensation and training which favor parent country employees.</td>
</tr>
<tr>
<td>P8(c)</td>
<td>MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which are oriented towards host country employees.</td>
</tr>
<tr>
<td>P8(d)</td>
<td>MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.</td>
</tr>
</tbody>
</table>
Table 6.1. (continued)

Selected Propositions offered by Schuler, Dowling and De Cieri (1993).

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<tr>
<td>P9(a).</td>
<td>The nature of a unit’s competitive strategy will determine, in part, the nature of its HR policies and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented HR policies and practices.</td>
</tr>
<tr>
<td>P10(a).</td>
<td>MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.</td>
</tr>
<tr>
<td>P10(b).</td>
<td>MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.</td>
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The propositions dealing with the endogenous variables of organizational structure [P7(a) to P7(d)], headquarter’s international orientation [P8(a) to P8(d)], and competitive strategy [P9(a) to P9(c)] will be investigated through case studies, as specific and detailed information is required to investigate the relationship between these relatively complex endogenous variables and SIHRM activities. For each case study, the appropriate organizational structure and international orientation are identified so that the applicable research proposition could be investigated. It should be recognized that P7(a) to P7(d) refer to alternative organizational structures; as such, only one of these propositions will be applicable for each case study organization. Similarly, P8(a) to P8(d) refer to alternative headquarter’s international orientation; as such, only one of these propositions will be applicable for each case study organization. Propositions referring to experience in managing international operations [P10(a) and P10(b)] will be investigated through surveys and case studies, as these require relatively concise and accessible information.25

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25 It should be noted that P10(a) and P10(b) were developed on the basis of Dowling’s (1988, 1989) study, which formed the foundation for the surveys utilised in this thesis, as will be shown later in this Chapter and in Chapter 8.
Research Methodology

The research methodology used in this thesis enables testing of the conceptual framework and the exploration of phenomena in the field. The research methodology for this thesis utilizes both quantitative and qualitative techniques, aiming to maximise the benefits of both approaches. The shortcomings of each approach should be balanced by the strengths of the other approach and contribute to the same substantive investigation (Bartunek, Bobko & Venkatraman, 1993). A multi-method approach utilising personal interviews, survey questionnaires and case studies fulfils these requirements by allowing the investigation of contemporary phenomena (SIHRM activities) in the context of endogenous factors (pertaining to the MNE) and exogenous factors (pertaining to the social dimension of the EU). A pilot case study will provide initial testing and development of the case study protocol and interview questions. Survey questionnaires will contribute broad information across a sample of Australian MNEs operating in the EU. The major case study will enable exploration of the issues identified in the pilot study and surveys, as well as those revealed in the review of extant literature. In the pilot and major case studies, multiple sources of evidence will be used for investigation of real-life variables and dynamic relationships.

Following Patton (1987) and Yin (1994), this thesis uses data triangulation, or mixed data collection methods, for verification of information obtained. These methods include: mailed questionnaires, interviews, and archival and documentation analysis. Documentation collected for this thesis includes company annual reports over the years since the Single European Act (where possible), written HRM policies (where in existence), company memoranda, company brochures and newsletters, published historical books (where possible), citations in government reports, and newspaper and popular business media reports (obtained via library collections and sources available through the Internet). Insights yielded through this research method could then be generalised to research questions and propositions (Eisenhardt, 1989; Yin, 1994).

The choice of a multi-method research approach was influenced by previous relevant research and by the consideration that the incipience of SIHRM research requires a
multi-method approach, in order to identify and explore emerging issues. As Jick (1979) has suggested, the use of multiple methods can compensate for the disadvantages associated with any single method, although it is recognised that truly objective reality can never be captured (Denzin & Lincoln, 1994; Lee, 1992).

With reference to strategic HRM, researchers such as Dyer (1984) have advocated a focus on "intensive case studies employing either longitudinal or retrospective designs that can capture the dynamic nature of strategy and strategy-making processes" (Dyer, 1984: 167). Hendry and Pettigrew (1990) echoed Dyer's (1984) suggestion in their own case study-based research. Dyer's (1984) concerns apply equally well to SIHRM. While there have been some quantitative survey-based research projects related to SIHRM topics, there are relatively few studies which can provide depth of analysis with regard to issues such as interactions between contextual issues and HRM (or SIHRM) issues. An important precedent for research utilising a mixture of survey and case study research design is seen in the work of Schuler and his colleagues (Jackson et al., 1989; Schuler et al., 1992b; Sparrow et al., 1994).

Following sequences suggested by methodologists such as Yin (1994), the research methodology in this thesis comprises 5 major steps, as detailed below.

1. **Review of the Extant Literature**
   As shown in Chapters 2, 3, 4, and 5, a comprehensive review of relevant literature was undertaken for this thesis. Exogenous factors pertaining to the EU social dimension and Australia, as well as endogenous factors for MNEs and SIHRM activities were identified. The conceptual framework developed by Schuler et al. (1993) was identified as an appropriate framework for this thesis.

2. **Establishment of a Multidisciplinary Data Base**
   In order to develop understanding and interpretation of possible relationships between exogenous factors and SIHRM matters, the researcher sought to develop some
broader understanding of the basic disciplines. While the SIHRM field is the researcher's area of specialisation and publication record, the contextual, exogenous factors required broader investigation. In order to develop requisite knowledge and a multidisciplinary application of the integrative framework, a very broad approach was adopted to facilitate the establishment of a multidisciplinary data base. The guiding principle was the need for the researcher to experience some degree of immersion in the context of the thesis material in order to decipher the events and relationships under investigation (Denzin & Lincoln, 1994; Lofland & Lofland, 1984).

The first major task was the development of a comprehensive review of multidisciplinary literature relevant to the thesis. This involved an on-going review of academic literature and popular media (such as newspapers, EU documentation, and Internet sources). Data collection also included secondary information obtained from EU documentation, Australian Government documentation, academic literature, and popular media sources. The Monash University library holds a substantial collection of documents and publications of the Office of Official Publications on the European Communities. Another relevant Australian data source was the Latrobe University library, a designated major documentation centre for the EU. A further major source of documentation was the Delegation of the Commission of the European Communities to Australia and New Zealand office in Canberra (the Australian national capital). This office provided consultation and documentation over the course of the preparation of this thesis. Substantial collections of EU documentation were also available via various consulting organizations and via Internet services.

The second major task to be undertaken by the researcher was the development of a personal network of 'expert' contacts who acted as external informants to provide advice and information based on their area of specialist expertise (Chen, Farh & MacMillan, 1993). The decision to utilise this strategy was influenced by research such as that in the strategic management field, which has advocated interviews with outside informants to enhance a researcher's understanding of a firm's competitive strategies (Harrigan, 1983). Chen et al. (1993) have documented the use of external
informants in strategy and macro-organizational studies, noting that they may serve several purposes, including: exploratory purposes, such as exploring research issues or pretesting instruments in new areas; or the verification of findings. These purposes are of particular relevance for the present research. The use of multiple informants allows for cross-validation with other information sources (Yin, 1994).

This network represented wide-ranging perspectives and experience in EU matters. Informants included: academics who have authored publications relevant to the thesis topic; lawyers and management consultants with expertise in EU and or HRM issues; stakeholders, such as EU officials; and observers, including a journalist specialising in EU economic issues. As Chen et al. (1993) have advised, to select the most suitable informants, the researcher considered the type of knowledge the informants held and their experience in the relevant area. One constraint on this method was the recognition that reliability of data from a given informant may have been traded off against accessibility. The informants were identified through a variety of means, mostly after the researcher had heard or read of their expertise in a given area. A protocol for approaching these informants was established. First contact was by personal communication at seminars or conferences, by telephone or letter of introduction. The research intent of seeking their expert views and advice on their area of specialisation was explained. The next step was to arrange an interview at a place and time of the informant's choice. Given the geographical separation in some instances (for example, between the researcher in Australia and the informant in Europe), some interviews were conducted by telephone. Where personal interviews were not possible, any relevant papers, documentation, or substitute interviewees were requested. In all instances, these informants were extremely helpful.

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26 Interviews with informants were conducted using an approach consistent with that applied to case study interviews. This approach is discussed in more detail later in this chapter.

27 Informants in Europe were particularly helpful, with several expressing surprise that someone would travel or telephone "all the way from Australia" to interview them. It appeared that the novelty of hailing from the other side of the world worked to the advantage of the research project. This reaction was also noted in the case study data collection.
Perhaps inevitably, some informants became more important to this thesis than others (Chen et al., 1993). Several informants were maintained over a number of months or years, with informants providing up-dates of information, on-going correspondence, and additional information with subsequent questions and requests from the researcher for clarification, as events in the EU unfolded and the researcher attempted to interpret them. The information gleaned from this network of informants, combined with supplementary objective documentation used to validate their data, contributed strongly to the contextual reviews provided in Chapters 2, 3 and 4. It was recognised that external informants would perform most accurately with regard to information based on their area of expertise (Chen et al., 1993).

Data collection included primary information, obtained through interviews with informants on relevant aspects of the EU, particularly the social dimension. For example, individual information included informants' views of changes in the EU environment. Data collected included descriptions of issues relevant to Australian MNEs in the unification of the Single European Market on January 1, 1993. This included perceived causes, outcomes and effects of events, and involvement of various parties (Kervin, 1992). Overall, this literature review and informant network provided longitudinal reference, yielding an historical and contemporary perspective to the unfolding events in Australia and the EU.

Informants consulted in the preparation of this thesis include:

- Mr Nieck Ammerlaan, Reuters Economic Correspondent (EU Affairs), Reuters, Frankfurt, Germany.
- Mr Charles Anzarut, Victorian President, Australian Council for Europe.
- Dr Chris Brewster, Cranfield School of Management, Cranfield, England
- Mr Remy Davison, University of Melbourne, Parkville, Australia.
- Mr Markus Dollries, Head of Melbourne Office, German-Australian Chamber of Industry & Commerce, Melbourne, Australia.
- Dr Bernardino Fortuna, Italian Trade Commission, Melbourne, Australia.
- Ms Amy Frey, Manager, Europe 1992 office, Department of Industry, Technology and Resources, Melbourne, Australia.
• Mr John Hallett, Trade Development Manager, Australian Consulate-General, Frankfurt, Germany.
• Ms Eva Hayward, Manager, Information Services, KPMG European Business Centre, Brussels, Belgium.
• Mr Terry Lockhart, Cranfield School of Management, Cranfield, England
• Dr Renzo Moro, President, Italian Chamber of Commerce & Industry in Australia, Melbourne, Australia.
• Mr Ivor Roberts, Mr Robert Jarrett, Principal Administrators, European Commission, Brussels, Belgium.
• Mr Frank Unger, Commissioner for the Government of Victoria, Australia (located in Frankfurt, Germany).
• Ms Renate Weissenhorn, Business Development Manager, State of Victoria European Office, Frankfurt, Germany.
• Dr Philomena Murray, University of Melbourne, Parkville, Australia.
• Various personnel at KPMG Australia in Australia.
• Various personnel at Phillips Fox legal firm, Melbourne Australia.
• Office of the Union of Industrial and Employers' Confederations of Europe (UNICE), Brussels, Belgium
• Office of the European Trade Union Confederation (ETUC), Brussels, Belgium.

A third aspect of this program was the development of the researcher's professional interaction with academics in Australia with research interests focused on Europe. Over the duration of this thesis, numerous seminars and conferences conducted for the Australian business community were attended or participated in by the researcher. For example, in 1992-93, the researcher attended a summer school program titled 'From Common Market to Single Market: the Politics & Economics of the European Community' at the University of Melbourne, Australia. Seminars and conferences also included those held by: Austrade, the Australian Council for Europe; Australian Institute of International Affairs; Australian Business in Europe; Centre for European
Studies, Monash University, Australia; Contemporary European Studies Association of Australia; Department of Foreign Affairs and Trade, Australia; European International Business Academy; and Melbourne Goethe-Institut. The researcher also attended seminars and lectures by EU dignitaries, including His Excellency Dr Dietrich Hammer (immediate past Ambassador and Head of Delegation of the Commission of the European Communities to Australia and New Zealand) and Mr Padraig Flynn (European Commissioner for Employment and Social Affairs).

3. Pilot Case Study

For the major part of this thesis, the units of analysis for the surveys and case studies were enterprises (either corporations, or a division within a corporation), identified as 'complete employing entities' (Purcell, 1987). This unit of analysis was chosen to provide enough cases or observations for meaningful analysis (Kervin, 1992).

In order to gain introductory knowledge of the subject area without compromising the potential sample of Australian MNEs, a pilot study was conducted in December 1989 - January 1990. Interviews were conducted with a U.S. MNE which has worldwide operations and has been established in Europe for over 20 years. Interviews were fairly unstructured as, at the time, the researcher was in the early stages of formulating the topic and questions to be investigated. Data triangulation was achieved through company documentation and extant literature relevant to this organization. The pilot study inquiry was much broader and less focussed than the major data collection (Yin, 1994). The pilot study was valuable for development of the surveys and protocol for the major case study. The pilot study revealed inadequacies in the initial case study design and helped to articulate it further (Yin, 1994).

4. Survey Questionnaires

Quantitative and qualitative approaches were combined in the incorporation of survey questionnaires in the thesis. (This is discussed in more detail in Chapter 8). In December 1992, and again in December 1994, survey questionnaires were mailed to
Australian MNEs identified as operating in the EU. The questionnaires were used in order to gain a broad coverage of issues facing Australian MNEs operating in the EU, and to provide initial investigation of which, if any, developments in the EU social dimension were of direct concern to senior HR managers and SIHRM in Australian MNEs.

The questionnaire was formed on the basis of the research questions, propositions and prior empirical research. The survey replicated and extended a survey of US practitioners of IHRM, reported by Dowling (1988, 1989). The survey questionnaire was developed to provide for investigation into the company details of ownership, size, structure, SIHRM, and EU issues. Anonymity of individual responses was assured, in a covering letter and on the cover page attached to each questionnaire (see Appendices 2.1 to 3.2).

The target organizations for the 1992 and 1994 survey questionnaires overlapped, as the 1994 sample list replicated the 1992 list, with additions and deletions based on enterprise appearance or demise. Thus, it was anticipated that a sub-sample of MNEs would voluntarily respond to both 1992 and 1994 surveys, providing repeated measures for the 1992 and 1994 surveys. For this sub-sample, the collection of survey data at two time points allowed for the examination of changes over time, for example, in SIHRM variables such as those related to expatriate management. This longitudinal approach to data collection has the potential to more adequately address the complexity of variables considered in this research project than would a solely cross-sectional approach.

The questionnaire included both open and closed question formats. Closed response formats included response scales with choice and categorising scales which were coded for statistical analysis. Analyses of survey responses were conducted with the use of Microsoft Excel and the Statistical Package for the Social Sciences (SPSS) computer programs. Descriptive statistics were calculated for each item. Selected Pearson correlations were conducted to replicate Dowling's (1989) approach. To provide some comparison of data collected in 1992 and 1994, t-tests for two samples
were conducted. For the sub-set of MNEs responding in both 1992 and 1994 surveys, further analysis included descriptive statistics for each item and t-tests for matched samples (repeated measures). Content analysis of responses to open-ended questions was used to categorise those responses for discussion.

Managing the Limitations of Survey Questionnaires
The major advantages of mailed questionnaire surveys for the present study are: greater access to a larger sample; the low cost of administration; and the ease for respondents in taking time to gather information. Respondents could leave a particular question until later, ask someone to search for the information, or pause to search for the information themselves (Kervin, 1992). The survey questions were designed to maximise measurement validity, minimise measurement error, and minimise item nonresponse (Kervin, 1992). Concerns such as: clarity and specificity of questions, appropriate language, simplicity, brevity, neutrality and relevance were considered in piloting of the questions. It is acknowledged, however, that the disadvantages of questionnaires include difficulty in obtaining contextual information and the risk of overlooking important subtleties in data (Harrison, 1994). For these reasons, a case study approach was also utilised in this thesis.

5. Major Case Study
A primary aim of this research is to utilise a case study methodology to examine the implications of the Social Dimension of the EU for SIHRM in Australian MNEs. Yin (1994) differentiates case studies from ethnographies and participant observation. He points out that case studies are particularly appropriate when the researcher deliberately wants to consider and include contextual conditions. Case studies are not limited to grounded theory building (Eisenhardt, 1989; Yin, 1994). Yin (1994) argues that theory development is an essential step prior to the collection of case study data. The pilot and major case studies in this thesis are exploratory in nature. With respect to this thesis, the development of the conceptual framework has provided a rich foundation for empirical research. Case studies may be comprised of any combination
of quantitative and qualititative data collection.

As noted earlier, Dyer (1984) has recommended retrospective or longitudinal approaches to organizational case studies. Data collection for the major case study was conducted over a three year time span. This coincided with the most important developments in the EU social dimension relevant to this thesis. Yin (1994) cites one specific use of case studies as to explore situations in which there are no clear, single set of outcomes. This applied well to the research undertaken in this thesis.

Eisenhardt (1989) has detailed the process of research by case study, pointing out the major steps to be considered. The case study approach focuses on understanding the dynamics present within single settings. The research design may incorporate multiple levels of analysis within a single organizational study. Typically, data collected include archival material, interview data, questionnaire responses and observations. Both qualitative and quantitative data may be utilised. Several researchers have developed methodologies for analysing the data from case studies, particularly qualitative data analysis (cf. Miles & Huberman, 1984, 1994; Richards & Richards, 1993; Van Maanen, 1983; Yin, 1994). Eisenhardt (1989) has also detailed the various aims which case study research may accomplish; these include not only the provision of description but also the testing and generation of theory.

Following recommendations by methodologists and HRM researchers (for example Dyer, 1984), descriptive, exploratory research to document SIHRM from the practitioner's viewpoint, was seen as highly desirable. Thus, for example, the structure of interview questions was fairly broad, with open-ended questions to facilitate the managers' capacity to identify SIHRM influences, interactions and issues, rather than the researcher imposing pre-conceived views or prompting particular responses (Denzin & Lincoln, 1994).

**Case Study Protocol**

A protocol was established for the major case study. This included: case study
objectives; field procedures, such as gaining access to organizations and data collection; conducting interviews; interview questions; and a guideline for the case study report and analysis. Each of these aspects is discussed in some detail in the following sections. The protocol was used as a tactic for increasing quality control and reliability of the case study research (Yin, 1994).

**Case Study Objectives**

The specific objectives of the major case study were based upon the conceptual framework (Schuler et al., 1993) presented in Chapter 5. The case study had two major objectives. First, it described the historical background of the enterprise, identifying contextual factors which have shaped current SIHRM issues, functions, policies and practices. This attempted to provide more coverage of the contextual influences on SIHRM than has been done elsewhere in Australian (and international) literature (as discussed in Chapters 2, 3, 4 and 5). Second, it analysed examples of relationships between the context, or exogenous variables, endogenous variables, and SIHRM issues, as identified in the conceptual framework. These two objectives were intended to provide some exploration of the research questions and propositions.

**Selection of Case Study Organizations**

The selection of the major case study for this thesis was influenced by the recognition of a constraint caused by Australia's relatively small economy and limited number of MNEs operating in the EU. The case study approach required an enterprise which would provide data of high quality and depth, through a substantial presence in the EU environment (Miles & Huberman, 1994).

Case study selection for research such as the present study is clearly a purposive, rather than random process (Miles & Huberman, 1994). Several criteria were utilised for case study selection. First, a guiding principle of case study selection was to identify an enterprise experiencing major contextual change, with enough internal activity for SIHRM to potentially be identifiable. Dyer has suggested that researchers
conducting case study research should "seek out organizations known to be experiencing change" (Dyer, 1984: 167). Jackson et al. (1989) appear to agree with this suggestion, as they argue that "... the analysis process... should be stimulated in an organization whenever change in one of the important contingencies is experienced or anticipated" (Jackson et al., 1989: 783). This seems particularly relevant in the chosen research context of the changing EU context. Second, the enterprise was required to have majority Australian ownership, with operations in more than one member state of the EU. Many Australian enterprises have long-standing relationships with the United Kingdom. Given the United Kingdom's stance on social issues, the cultural similarities between the United Kingdom and Australia, and dissimilarities with Continental EU members, the chosen enterprise was required to have operations in EU member states other than (although perhaps including) the United Kingdom. Third, the case study enterprise was required to meet the criterion of employing expatriates in the EU operations, although the size of the expatriate workforce was not important. The nationality and country of expatriation were not important (it could be between Australia and the EU, or within the EU region). A final but by no means insignificant criterion was the requirement of (non-financial) organization support for the investigation. It was not considered important to this study whether the enterprise was involved in manufacturing or service industries.

Gaining Access to Organizations

Developing contact and gaining access to organizations is of paramount importance in case study research (Lofland & Lofland, 1984). In this study, initial access to the enterprise was gained by personal contact. The first step upon access was to arrange an interview with the most senior person with responsibility for the European Union operations, or with the HR Director for the enterprise. Initial discussions were by telephone, with letters sent by facsimile to clarify the research intent. An interview with this contact person followed. Concurrent with this was the commencement of in-depth research into organizational documentation available in the public domain. Access to company documentation was also obtained. The next step was to develop a list of subsequent interviewees, a mixture of HR personnel, managers with
responsibility for Australian and EU operations, and expatriate and repatriate employees in various functions in EU operations. These lists were provided by the initial contact, although subsequent interviewees sometimes suggested additional interviews which were conducted with the approval of the initial contact person.

Opportunities for interviews were constrained by business and time commitments of the managers and employees and geographical distance between the locations of the researcher and potential interviewees. Throughout the course of data collection, the interviewer travelled from Australia to the European Union to conduct interviews in December 1989 - January 1990, August - September 1991, December 1991 and July 1992. In January 1990, the researcher travelled to Philadelphia USA, to conduct an interview for the pilot study. In addition, several interviews were conducted when interviewees were in Australia. Other contacts, interviews and follow-up conversations were conducted by telephone or facsimile, either within Australia or between Australia and the EU.

**Interviews**

The interview questions were derived from the extant literature or devised on the basis of consultation with the research supervisor, the network of informants, and several HRM practitioners, and the pilot study. Interviews included broad questions to introduce topics, funnelling to focused questions with open-ended responses. The interviews in the present study were designed to address the various technical matters raised in the methodology literature (Kervin, 1992; Minichiello, Aroni, Timewell & Alexander, 1990). For example, each interview began with an introduction to the research project, to provide the interviewee with a clear and concise explanation of the purpose and nature of the study, and the background of the researcher. Assurance was given that the respondent would remain, if he/she so wished, anonymous in any written reports. Interviewees were informed they were free to interrupt or ask for clarification during the interview at any stage.

The interview guide was in a flexible format, so that interviewees could respond to
questions or provide information according to their own preferences (Denzin & Lincoln, 1994). Exploratory and follow-up questions (Minichiello et al., 1990) were utilised extensively in the semi-structured interviews. That is, a common set of questions was asked of all interviewees, but the order varied according to the direction or flow of the conversation in each interview. If issues were raised which would answer a question in another section of the interview guide, they would not be postponed, but rather were dealt with in the order in which they arose. Also, interviewees with particular knowledge of given events or areas were asked more specific, in-depth questions with regard to those areas.

The interviews provided an essential source of information for the pilot and major case study. The open-ended question style yielded original responses from interviewees, rather than obtaining frequencies of responses pre-determined by the researcher. For example, each interviewee was asked to describe their history and role in the enterprise, and to respond to a range of questions covering major issues facing SIHRM and the enterprise in the EU. Comparison of data across interviews on a given issue led to insights into the phenomena under study (Yin, 1994).

Permission to tape-record was requested in each interview. Most face-to-face interviews were taped, and detailed notes were taken in all interviews. The notes provided a guide for tape transcription, and additional points or reminders for the researcher. Interview transcripts were completed within 48 hours of each interview. Each was mailed or sent by facsimile to the interviewee for verification of details. Where any difference of details was then noted by the interviewee, this latter form of information was followed. Where information was lacking on particular topics or situations, follow-up interviews were conducted by telephone or in person. In several instances, follow-up conversations or second interviews were held. The first interviews, for the pilot study, were held in December 1989. The last interview, a follow-up interview for the key EU person in the major case study (upon his promotion and transfer to Australian headquarters), was held in January 1996.

The case studies utilised semi-structured interviews as the primary data collection
technique. That is, a standard set of questions were asked of all interviewees, but the
order was at times influenced by the dynamic 'flow' of an interview, or specific points
raised by an interviewee were followed up in more detail. This semi-structured
interview approach yielded a guided conversation, the goal of which is to elicit from
the interviewee meaningful, rich details that can be utilised in qualitative analysis. In
contrast to structured interviewing (such as "opinion polling"), which seeks to
determine the frequency of pre-formed questions on a particular topic or situation or
the frequency of preconceived ideas, semi-structured interviews aim to discover the
interviewee's experience of a topic or situation, or to find out what kinds of ideas exist
(Lofland & Lofland, 1984).

Data Collection
The use of data triangulation is seen as key to case study research (Yin, 1994), as it
enables development of converging lines of inquiry. With triangulation, potential
problems of construct validity can be overcome, as multiple sources of information
yield multiple measures of the same phenomenon (Jick, 1979; Yin, 1994). The
interviews with various employees, combined with company documentation (annual
reports, in-house newsletters and journals, official company histories; procedures
manuals), and other published sources (newspapers, journal articles) provide different
perceptions, verification, and multiple measures of phenomena under study. Data
gathered include the attributes of the enterprise, such as size, structure, and SIHRM
practices. Data also included the business history, from establishment through
development to the current ownership and management structure. This was facilitated
by published company histories. Information on significant events in HRM, SIHRM,
and internationalisation of the enterprise was also gathered. Data were collected with
regard to the developments in the EU. For both pilot and major case study
enterprises, data collection traced their entire historical presence in the EU.

For each enterprise the introduction of the Single European Act was utilised as a point
of initial recall. In most cases, this required recall over a period of less than five years.
The Single European Act was chosen to provide a common exogenous starting point
across all case studies. Hence, the approach taken in this thesis aimed to provide
flexibility where required while establishing common milestones where appropriate.
This approach was preferred to one which might attempt to impose a uniform
criterion on all cases (Denzin & Lincoln, 1994). Interview questions and
supplementary documentation (if in existence) yielded information on all SIHRM
policies and practices. This included a non-directive component where interviewees
were asked for their subjective evaluations of the strengths and weaknesses of the
development and implementation of SIHRM strategies, policies and practices.

Managing the Limitations of the Interviewing Method
It is recognised that there are disadvantages or problems often associated with the
interviewing method, including response bias due to the interviewee's poor or
subjective recall, or inaccuracies in communication of ideas (Harrison, 1994). Several
steps, however, were undertaken in this study in order to minimise such problems
(Minichiello et al., 1990; Yin 1994). First, when each interview was arranged, the
interviewee was provided with an outline of the research intent, to encourage recall
on relevant topics. Interviewees were requested to refer to and/or provide any
relevant documentation. Second, confidentiality was assured. Third, to increase the
interviewee's comfort, interviews were conducted at a place and time of the
respondent's choice. Interviews were conducted in the person's office, in a conference
room at their place of business, or in a hotel meeting area. In most instances,
interviewees (of their own volition) diverted their telephone calls to minimise
distractions. Fourth, to increase accuracy of the transcript, interviews were tape-
recorded with the interviewee's permission. In a small number of interviews, the
person requested the tape to be stopped for an "off-the-record" comment. Overall,
the tape-recorder appeared to be only a minor distraction for interviewees. No
interviewees expressed discomfort with the tape-recording. Finally, the reliance on
open-ended questions and a passive demeanour exhibited by the researcher minimised
the risk of the interviewee being 'led' towards any particular response (Yin, 1994).
Case Study Analysis and Generalisation to the Conceptual Framework

The initial steps in case study analysis involved data logging and data analysis. Data logging refers to the field notes and interview transcripts, document collection and note-taking which were required in the process of qualitative research. Data analysis refers to the process of identifying patterns or themes from the information gathered. An early stage in this process involved global sorting and ordering, or clustering the notes taken into various categories or topics. Data displays, including chronological flowcharts of events, were a useful analytic technique in this process (Miles & Huberman, 1994). The research questions and propositions provided a basis for the order in which sections or issues were placed (Lofland & Lofland, 1984; Yin, 1994).

From the interview data and documentation collected, a case report was prepared for the enterprise. Each enterprise case comprised a "whole" study, in which:

convergent evidence is sought regarding the facts and conclusions for the case; each case's conclusions are then considered to be the information needing replication by other individual cases. ... For each individual case, the report should indicate how and why a particular proposition was demonstrated (or not demonstrated) (Yin, 1994: 49).

The major case report was structured according to a standard outline developed on the basis of the literature review and the pilot case report. Each case report was revised on the basis of verification of data provided by the initial enterprise contact. This proved to be an incremental process, allowing for ongoing collection and updating of information. The pilot case report and major case reports form the basis of the case analyses shown in Chapters 7 and 9.

In developing the case analyses and final discussion (Chapters 7, 9 and 10), several steps were undertaken, following guidelines offered by Miles and Huberman (1984; 1994). First, the case reports were compared with the literature reviewed and the research questions and propositions set for this thesis. This step required examination of case material for overall themes and possible relationships between variables or issues identified. Second, the case reports were compared with the survey findings,
to identify common or differing insights or patterns. Third, the case reports were compared with each other, to verify the emergent patterns from each case, and from the survey findings. Finally, an integrative interpretation of the findings is offered, with revision of the conceptual framework (Eisenhardt, 1989; Miles & Huberman, 1994).

Managing the Limitations of Case Study Research

There are recognised limitations of case study research. Criticisms of case study research include: it may lack rigour; there may be bias caused by the researcher's perspective; and it may be difficult to replicate findings or to generalise from findings (Miles & Huberman, 1994). It is possible to overcome the threat of lack of rigour through careful case study design and adherence to a case study protocol (Yin, 1994). Further, cases may be generalised to the conceptual framework, and tested against the findings of other cases. In particular, advantages of interviews appeared to outweigh possible disadvantages in this research. Advantages included: the building of rapport with respondents; access to more detailed and specific information; and discovery and investigation of issues which emerged during the interview process (Kervin, 1992).

Summary

This chapter has explained the research design adopted in this thesis, acknowledging influences such as Dyer (1984), Miles and Huberman (1994) and Yin (1994). This thesis aimed to provide exploratory empirical testing of the conceptual framework and propositions presented by Schuler et al. (1993), in addition to investigation of specific research questions relating to the implications context of the EU social dimension for Australian MNEs. A multi-method approach, with multiple sources of data, was selected. Information was obtained utilising a mixture of closed and open-ended questions, with an emphasis on the latter, particularly in the pilot and major case studies. Thus, this thesis aimed to contribute to an area of research which is embryonic, particularly with respect to empirical evidence for Australian MNEs.
CHAPTER 7.
PILOT CASE STUDY: CHEMCO IN THE EUROPEAN UNION

Objectives of this Chapter

The main objective of this chapter is to provide a case study analysis of Chemco, a U.S. MNE with significant operations in the EU. An overview of the organization's current characteristics and historical background is provided. The focus of this case analysis is on issues related to SIHRM in Chemco's operations in the EU. As a contrast for Australian MNEs in the EU, these issues provide indirect analysis with regard to the research questions, and direct analysis of the research propositions posed for this thesis.

Case Selection and Data Collection

Chemco was chosen as a case study for several reasons, as outlined in Chapter 6. First, following Dyer's (1984) advice, Chemco was identified as an enterprise experiencing major contextual change, with enough internal activity for SIHRM to potentially be identifiable. Second, Chemco's international operations (in Australia and Europe) are well established. It was anticipated that this case would provide a contrast to the patterns for Australian organizational presence in Europe. Chemco began operations in the U.S.A. in 1909 and has operated in Europe since 1936, under various names over the years. Chemco has operated in Australia since the 1920s (Chemco Chairman & CEO, 1995a). Third, Chemco employs expatriates in the EU. Fourth, there was support for the researcher to gain access to the organization.

The name of the company and key figures have been changed to provide confidentiality.
As explained in Chapter 6, multiple data collection methods were employed in the case study approach: interviews, analysis of company documentation (such as annual reports, in-house newsletters and journals, official company histories; procedures manuals), and analysis of other published sources (such as newspapers, journal articles). Interviewees for this case study included the Personnel Director - Europe, (located in London), the Director - Chemco France (located in Paris), and the Vice-President, Personnel (located in the corporate headquarters in Philadelphia, U.S.A.). Data were collected on a number of variables relating to: external issues, particularly issues related to the EU social dimension, endogenous organizational factors, and SIHRM.

Overview and Historical Background for Chemco

Chemco is a world-wide manufacturer of specialty chemicals and plastics with sales which approached US$4 billion in 1995. Chemco is the world leader in acrylic polymer and emulsion technology, and has been recognized for more than thirty years as the premier supplier of acrylic additives for the ceramics industry. Chemco is headquartered in Philadelphia, Pennsylvania USA. At the commencement of data collection in 1989, Chemco employed 13,040 people. By the end of 1994 there were 12,211 Chemco employees worldwide. Chemco manufactures products at 46 locations in 21 countries. More than half of Chemco sales occur outside the United States (Chemco company documents; Chemco home page, 1995).

Organizational Strategy

Chemco's corporate vision statement is shown in Table 7.1. This indicates the organization's emphasis on innovation through research and development, combined with a focus on high quality customer service. The company has a clear corporate

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For expediency, the Personnel Director - Europe is referred to throughout this chapter as Mr P.
culture and explicit goals.

Table 7.1. Chemco Vision Statement

| • Chemco is a highly innovative, growing global specialty polymer and chemical company building on an ever-broadening technical base. |
| • Our customers regard us as indispensable to their success. We are their best and most consistent supplier of products and services. The general public views the company as a valued corporate citizen and a good neighbor. |
| • Our employees behave as owners and feel accountable for their performance and the success of the company. |
| • Ethical behavior, teamwork, fast action, and a passion for constant improvement are the hallmarks of our culture. |

The Chemco organizational strategy is described in the 1995-1997 Operating Plan:

*Our continuing strategy is to achieve profit growth and generate discretionary cash through a combination of unit volume increase and an aggressive attack on operating costs. We have significantly increased our performance targets to a level that should place us among the leaders of the chemical industry* (Chemco Chairman & CEO, 1995a).

**Organization Structure**

Chemco is organized around 10 worldwide businesses: polymers and resins; formulation chemicals; monomers; plastics additives; biocides; petroleum chemicals; ion exchange resins; agricultural chemicals; electronic chemicals; and an acrylic plastics joint venture. Each Chemco business has a global management team. For example, in the petroleum chemicals division, the team is comprised of: business unit director; North American region marketing manager; manufacturing manager; research department manager; European region business manager; North American region sales manager (Chemco newsletter, 1989). These teams operate within a matrix structure based on product and functional reporting lines.
Chemco Historical Background

Chemco began USA operations in Philadelphia on September 1, 1909 as a partnership between innovative chemistry and business. Its origins can be traced to pioneering work in leather tanning conducted in Germany by its founders, chemist Dr. X and businessman Mr. Y. From the beginning, the two partners established several of the enduring characteristics of Chemco: the development and production of advanced chemical specialties for manufacturers who would use them in the production of their own products, and a sales approach which emphasized a high degree of technical sophistication and a willingness to work with the customers in the field to solve manufacturing problems (Hochheiser, 1984).

By 1909, the European business was on a sufficiently secure footing for Mr Y to return to the USA, to which he had first come in 1901, to open the US branch of the firm. Mr Y repeated the European success; by 1917, USA sales approached US$1 million, and the Bristol, Pennsylvania, plant was under construction. Also in 1917, the USA entered World War I, an action with significant implications for companies owned by German nationals. Mr Y incorporated the USA branch of Chemco as the separate independent company it has been ever since. The company continued to introduce new products through innovation and invention. Starting in 1924, Chemco's own research facilities have been developed. Despite inventions and developments in the US, the most important source of new products proved to be Dr X, who managed the independent Chemco A.G. in Germany. Dr X's research after World War I led to the introduction of his first commercial acrylic product. Mr Y acquired US rights to his friend's work and established his own acrylics research group (Hochheiser, 1984). The introduction in 1936 of a tough, clear acrylic plastic that was a lightweight substitute for glass launched the Chemco company into a new market. The acrylic sheet won fame for protecting Allied pilots with shatter-resistant cockpit canopies and windshields during World War II. By the end of the war, sales had increased ninefold and the Chemco workforce sevenfold.

The company had become committed to acrylic chemistry; its key postwar problem was to develop civilian markets for all its production capacity. New markets included:
internally illuminated signs, automobile tail lights, solvent-based coatings, emulsions for textile finishes, and oil additives. By the early 1950s all of these product lines were successful, and Chemco was deriving over half of its sales and profits from acrylic chemistry. The company continued to pursue other areas, and had a notable success in agricultural fungicide, first introduced on an emergency basis in 1943 and 1944. It was the first successful synthetic organic fungicide. After an improved formulation, was introduced in 1948, it became the product of choice. This fungicide proved particularly important in Chemco's successful postwar expansion into Europe.

Ion exchange resins were another important new line. The first of these appeared in 1940, but the technology moved from the experimental stage only after the 1948 introduction of an entirely new series of improved resins. Among other things, these resins made possible the large scale preparation of ultra-pure deionized water, important both for power plants and for pharmaceutical manufacture. The company found another outlet for its expertise in acrylic chemistry in 1953 when it introduced the first acrylic latex emulsion for house paints. Chemco scientists continued to improve paint emulsion technology, and in the mid- and late-1960s produced a series of new, vastly improved paint emulsions. These emulsions have been continually refined over the years and remain one of Chemco's major product lines.

Chemco has had a share of failures along with its successes. Among these were acquisitions in the 1960s and early 1970s in fibres and health products. These areas proved too far removed from the markets and technologies of Chemco expertise, and businesses have since been divested. More recently, in acrylics, the company has introduced a wide variety of specialty coatings for uses such as printing inks, roof mastics, and various solvent-free systems; hollow sphere polymers to increase the hiding power of paint; and a variety of processing aids and impact modifiers for PVC plastics. Although this last category is not a new product line, it has only achieved large sales in recent years as PVC has become a major plastic. It is an example of Chemco's continuing emphasis on proprietary specialty chemicals; the company manufactures additives, but not PVC itself. The latter is a commodity chemical where Chemco would have no scientific or technological advantage. The 1960s and 1970s
also brought the introduction of herbicides, demonstrating Chemco's strengths in other specialty chemical areas (Chemco home page, 1995; Hochheiser, 1984).

In the 1980s, Chemco continued to build upon its strength in acrylic chemistry, plastics and agricultural chemicals. Chemco experienced commercial success in water-based materials for use in detergents, water-treatment and mineral processing, as well as the debut of novel technologies for superabsorbent materials (such as diapers), opaque paints and paper coatings, and biocides for use in shampoos, paints, swimming pools and industrial manufacturing operations. The company's agricultural chemicals business has added new herbicides, fungicides and insecticides to its product portfolio.

In 1992, a minority interest in an electronics chemicals business became a wholly owned subsidiary targeted at serving the needs of computer chip and printed wiring board manufacturers worldwide. The electronic chemicals business is a leading manufacturer of specialty chemicals for the fabrication of printed wiring boards and integrated circuits. Since its founding in 1957, the electronic chemicals business has participated in the rapid growth of the printed circuit board, microelectronics, and surface finishing industries. The electronic chemicals business is headquartered in Massachusetts, USA, with manufacturing facilities in the USA, England and Japan.

In addition to the broad range of wholly owned subsidiaries, Chemco operates several international joint ventures. For example, the formulation chemicals division has a 50/50 joint venture manufacturing plant in France to serve Western and Eastern Europe, the Middle East, Africa and Russia. Products of this joint venture are sold for water treatment, oil field, detergents and mineral process applications. Research and technical service laboratories are located in the USA, France and Singapore.

Another international joint venture was formed in October 1992, when the performance plastics business of Chemco joined with a partner firm to form a 50/50 joint venture that encompasses the poly methylmethacrylate (PMMA)-related businesses of both firms. This alliance of resources has established the largest acrylic
plastics manufacturer in the world, with global reach and a strong research and development base. The joint venture is organized by region, with three global subsidiaries: in Europe, North America, and the Pacific. The joint venture is, in its own right, a major chemical and plastics producer ranking among the 15 leading chemical companies in the world. It employs approximately 35,000 people and operates in over 100 countries around the world.

International expansion was established early in the company history, with offices established in Argentina and Chile in 1913. During the 1950s, Chemco experienced dramatic international growth which included production sites in France, Italy, and England. The company also began its first operations in the Pacific Rim, with joint ventures in Japan. An example of Chemco's worldwide strength and transnational capabilities (Bartlett & Ghoshal, 1990) is shown in the polymers and resins division, the largest business unit in Chemco. Emulsion polymers form the majority of the volume of this business. Chemco is the largest producer of emulsions in the world with more than 30 plants in its global network. For example, Chemco produces architectural coating emulsions which frequently are tailor-made to meet unique customer and local demands. Climate differences and consumer preferences in locations including Australia, Brazil, Germany, Canada, Japan, and the United States require this capability.

Overview of Chemco European Region: Enterprise Characteristics

As shown in Table 7.2, at the time of data collection, in 1989-1990, Chemco European regional operations had annual sales ( invoiced) of US$1038 million. The sales area for this operation is: Western and Eastern Europe, USSR (as it was then), Africa, and the Middle East. There are eight main subsidiaries (legal entities), with 17 manufacturing plants across 5 countries. There are also two joint ventures: in Yugoslavia and in Turkey. Chemco employs 2350 people in the Europe operations, across functional areas of manufacturing (1,600); research and development (150); sales (300); and administration (350).
Table 7.2. Chemco European Region Details

<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>U.K.</th>
<th>Italia</th>
<th>Spain</th>
<th>Germany</th>
<th>Nordiska</th>
</tr>
</thead>
<tbody>
<tr>
<td>HQ</td>
<td>Paris</td>
<td>Surrey</td>
<td>Milan</td>
<td>Barcelona</td>
<td>Frankfurt</td>
<td>Stockholm</td>
</tr>
<tr>
<td>Total Employees</td>
<td>1230</td>
<td>500</td>
<td>394</td>
<td>87</td>
<td>55</td>
<td>79</td>
</tr>
<tr>
<td>1988 Sales (invoiced) (US million)</td>
<td>$397</td>
<td>$324</td>
<td>$155</td>
<td>$21</td>
<td>$100</td>
<td>$41</td>
</tr>
<tr>
<td>Countries</td>
<td>Benelux France Morocco Switzerland</td>
<td>U.K. Israel Eire</td>
<td>Italy Greece Middle East N. Africa Turkey Yugoslavia</td>
<td>Portugal Spain</td>
<td>West Germany</td>
<td>Denmark Finland Norway Sweden</td>
</tr>
</tbody>
</table>

(Source: Chemco records, December 1989).

Analysis of Research Questions

Question 1: Exogenous Factors and Australian Multinational Enterprises

The first research question posed in this thesis is:

In what ways are environmental factors such as government actions, regional economic activity, and cultural diversity, influential for Australian MNEs operating in the EU?

In late 1989, the events in Germany and Eastern Europe were major points of discussion in popular media and business circles. Senior managers in Chemco were optimistic, and the European Regional Director was reported as saying:

For Chemco, the dramatic liberalization of government policies in eastern Europe, and the proposed rebuilding of those countries, will bring an immediate boost in sales opportunities (Chemco newsletter, 1989, p. 1)
Chemco had maintained a presence in Eastern Europe for over 30 years, as the office in Vienna served Poland, East Germany, Czechoslovakia, Hungary, Bulgaria, Romania and the Soviet Union. Awareness of rapid external changes was high amongst senior management, as the European business manager of one of Chemco's businesses described the situation in the EU: "We may be in a mature marketplace, but it certainly is not one that allows us to be complacent" (Chemco newsletter, 1989, p. 3).

By the late 1980s, Chemco was already prepared for the development of the Single European Market. One area which was of concern to Mr P. is that of differing pay rates across EU Member States. Pay rates from high to low across EU Member States in which Chemco had major business in 1989, were ranked in the following order: Austria, Italy, Germany (West), Belgium and Luxembourg, France, Spain, Sweden, and the United Kingdom. By comparison, pay rates in the US would be ranked before France. Such differences have particular impact in areas such as industrial relations and expatriate compensation. A consistent view held by senior managers in Chemco is that, the longer a non-EU organization had been in Europe, and the better-established they are, the less impact the integration of European markets will have. For example, awareness and understanding of changes across the European region, at both national and supra-national levels of government action, should contribute to an organization's capacity to effectively operate in the EU. Overall, the results support Hodges' (1990) finding of a perception amongst Australian managers that a key success factor will be a strong and sustained local presence in the EU.

These findings are analogous to results of previous Australian research (e.g. Laczniak et al., 1994) which has identified a variety of external influences on Australian MNEs. Current and forthcoming changes in the EU context will continue to hold implications for MNEs based outside the EU, and operating in the EU. It is arguable that external factors, including legal, political, economic, social, and technological, which are important for Chemco and other US MNEs (Almor & Hirsch, 1995), also have the potential to influence Australian MNEs.
Question 2: The EU Social Dimension and Australian MNEs

The second research question for this thesis is:

What will be the implications of the EU Social Dimension for Australian MNEs operating in the European Union?

The matrix of national laws, collective agreements, practices and procedures which reflect the different traditions and cultures in the various EU Member States forms a substantial platform of social policies in the EU with which MNEs such as Chemco must develop familiarity and compliance. It is apparent that the impact of the social dimension will vary across the Member States where Chemco has operations (Bercusson & Van Dijk, 1995; Van Peijpe, 1995). Chemco senior management have recognized that the MNE is in a period of transition and change with respect to management issues, and, more particularly, with respect to SIHRM issues.

The relationships between the various external factors discussed with regard to research questions 1 and 2, and SIHRM in Chemco, are explored further, in relation to the research propositions [P5(a) to P6(c)], later in this chapter.

Question 3: Issues related to SIHRM for Australian MNEs Operating in the EU

The third research question posed in this thesis is:

What are seen as the key current and emerging issues related to SIHRM for Australian MNEs operating in the EU?

Investigation of Chemco's approach to SIHRM in the European Region was intended to provide preliminary indication of issues related to the third and fourth research questions posed in this thesis.

Chemco can be expected to be challenged by many factors in the environment, which will influence SIHRM issues, functions, policies and practices. With regard to the EU social dimension, Chemco is endeavouring to develop flexibility and utilize appropriate SIHRM strategies and practices, to enhance overall strategies and
performance (Dowling et al., 1994). Major SIHRM issues confronting Chemco in the EU are related to the perceived emerging need to address organizational and SIHRM issues in the context of the EU as a single market. For example, major issues include the need to recognize and effectively manage the cultural and language diversity across the EU. With respect to SIHRM in the context of the EU, this case study provides support for the findings of the Korn/Ferry International/Columbia University (1989) study, which found major concerns for European executives pertinent to HRM included the key corporate challenge of the availability of qualified human resources.

In addition to those SIHRM issues already discussed, implications for SIHRM in Chemco, and which would also apply to Australian MNEs, are related to a broad range of aspects related to working and living conditions in the EU. These aspects of working conditions are important considerations for all employers and employees. These are discussed in more detail with respect to the fourth research question.

**Question 4: Empirical Evidence of SIHRM in Australian MNEs in the EU**

The fourth research question posed in this thesis is:

*What empirical evidence is there of SIHRM in Australian MNEs operating in the EU?*

**Endogenous Factors**

Factors endogenous to MNEs which are influential for SIHRM include organizational strategy, organizational structure, headquarters international orientation, and experience in international business (Schuler et al., 1993). These factors are examined in order to investigate the evidence of SIHRM in Australian MNEs in the EU.

The strategy for the European regional operations for Chemco is strongly aligned with the overall organizational strategy, of emphasizing innovation through research and development, combined with a focus on high quality customer service (Porter, 1985; Schuler & Jackson, 1987). From the point of view of senior managers with
responsibility for the HR function, there is a reciprocal relationship or 'fit' between HR strategy and corporate or organizational strategy (Lengnick-Hall & Lengnick-Hall, 1988). This extends to involvement at plant level. As Mr P. described, "By building up relationships, I can take a more strategic role in the business. If a personnel manager proves himself (sic), he can get involved in strategic planning of the business". One specific example is that of the relationship between Mr P. and the German operations. In Germany, the subsidiary is small, with 55 Chemco employees and annual sales in 1988 of US$100 million sales (as shown in Table 7.2). The general manager in Germany maintains frequent and detailed contact with Mr P. Organizational strategy is discussed further with regard to the research proposition [P9(a)] later in this chapter.

The complexity and breadth of the organization structure for Chemco European operations are shown in Figure 7.1. Each national subsidiary and each business division has a direct reporting line to the European Regional Director, thus forming a matrix structure by product and country (or sub-region). Of interest for the present study is the indication that Mr P. reports directly to the European Regional Director. Both are located in London, England. Mr P.'s predecessor reported to the Financial Director. The European Regional Director is a Greek national who is the first non-US national to hold this position.

In fact, Mr P. reports (in a 'solid line' relationship) to two bosses: the European Regional Director (a 'geographic' boss) and the Vice-President, Personnel, located at corporate headquarters in the USA (a 'functional' boss). In practice, the geographic reporting relationship is much stronger than the functional reporting relationship, as Mr P. estimated he had spoken to the Chemco Personnel Director in the USA once in the past 6 months. In contrast, communication with the European Regional Director is on a daily basis. Thus, although Mr P. reports to headquarters in the USA for decision making, it is recognized that regional headquarters have considerable degree of latitude and freedom in decision making, when compared with operations located in the USA. For Chemco, some flexibility has been achieved by allowing more emphasis on regional, rather than functional, reporting lines. Overall, the
Figure 7.1. Chemco European Region Chart
(Source: Chart #28 European Region, Chemco records, December 1989)
structure is not entirely regiocentric, as most business managers are US nationals and all report to US headquarters. There would appear to be some degree of ethnocentrism evident in these staffing practices at Chemco. Chemco management recognize, however, that the matrix structure requires complex international HRM strategies and practices, particularly in regard to staffing the international operations of the company. In alignment with the extant SIHRM literature, awareness of the clumsiness and bureaucracy associated with matrix structures (Hill, 1994) has led to an emphasis on inter-unit networking (Bartlett & Ghoshal, 1990, 1992; Ghoshal & Bartlett, 1990).

Personnel managers in each European subsidiary also report in a matrix structure: to the general manager in the national subsidiary (the 'geographic' boss), and to Mr P. (the 'functional' boss). The positions reporting directly to Mr P. are shown in Figure 7.2. Eighteen employees in the Chemco European region are in HRM/employee relations roles. Mr P. maintains close contact with subsidiary managers throughout the European region, with weekly telephone conversations and approximately 25 personal trips around the European operations per year. Organizational structure will also be discussed with regard to the research propositions [P7(a) to P7(d)].

* Shared service with another function

Figure 7.2. Chemco European Region Human Resource Function Chart
Chemco's predominant headquarters international orientation appears to be a mixture of ethnocentrism, evidenced by centralization of several SIHRM issues, policies and practices, and regiocentrism, evidenced by some degree of autonomy granted to regional headquarters. This mixed orientation appears to have an impact on the frequency and likelihood of interaction among units, such that interaction is easier within the region than across regions (or between the region and headquarters). This factor is discussed further with regard to the research propositions [P8(a) to P8(d)].

Also identified as an important factor influencing SIHRM was MNE experience in international business. As noted in Chapter 5, such experience may be connected with the MNE's stage of life-cycle (Dowling & Schuler, 1990; Tichy et al., 1982). For example, Chemco's substantial amount of international business experience, combined with long-term presence in the EU, led management to suggest that longer experience in the EU would correlate positively with organizational performance in the region. MNE experience in international business is discussed further with regard to the research propositions [P10(a) and P10(b)].


With regard to overall HRM issues at Chemco, interviewees were aware of the Korn/Ferry International/Columbia University (1989) study (cited in Chapter 4). This report proved to be a useful benchmark for HRM at Chemco. Evidence indicated that Chemco are proficient in almost all areas identified in the Korn/Ferry International/Columbia University (1989) report as desirable HRM steps. These steps include: a corporate culture which attracts employees whose talents match corporate goals; investment in recruitment, training and development; long-term compensation programs that encourage and reward achievement of corporate goals; monitoring the cadre of high potential executives; systematic development of these people, using functional rotations, transfers across business units, and executive education; use of an executive resources audit, based on firm-specific criteria and individual achievements; succession planning (to some extent, as will be discussed later in this chapter); and effective utilization of the board of directors' pool of knowledge and
experience in HRM, assessment and planning. In contrast, one specific area was highlighted as in need of attention: the identification of critical areas of organizational deficiency and recruitment of executives who can pre-empt and correct these weaknesses.

Recruitment and Selection
For Chemco's European operations, recruitment tends to emphasize experience; very little recruitment is taken from recent graduates. Recruitment also emphasizes local experience; very few U.S. expatriates are used. With regard to equal opportunity, as shown by proportional employment of women, Chemco is fairly representative of organizations of its industry and size. Of the (approximately) 2,500 employees in the European region, 600 are professionals. Of this 600, 130 people are in managerial positions. Of the 600, 50 are females. Of the 130 managers, one is female, employed as a finance manager.

Performance Management, Training and Development
European demographic changes and emerging problems (Commission of the European Communities, 1994b) are well-recognized as challenges for Chemco, so management development and training are viewed by senior Chemco managers as motivational tools. Investment in training and development of employees is strong, with long-term compensation programs which encourage and reward achievement of goals. Managers seen as 'high-potential performers' are systematically developed, with functional rotations and movements across business units. Continuing executive education is also emphasized. An ongoing audit of the human resources function has been implemented, and succession planning is well-developed. One possible area of weakness is seen to be in relation to the company's ability to identify and act upon organizational deficiencies.
Compensation

As all managerial promotions must be approved by Mr P., recommendations for promotion are passed to Mr P. from throughout the European subsidiaries. Administration of compensation, benefits and bonuses for host country nationals, as for the majority of decision making for these employees, is thus managed in Europe by Mr P. and those reporting to him.

Expatriate Management

Expatriate management was viewed by the interviewees as an area requiring attention and improvement. There are approximately 40 US expatriates and 3 third country nationals in the European regional operations. These numbers indicate a high use of parent country nationals, indicating a tendency towards ethnocentrism. This is also suggested by the minor role played by Mr P.: expatriation policy on issues such as expatriate selection or compensation is controlled by corporate headquarters in the USA. This centralized approach applies to all geographic regions of Chemco operation (Asia-Pacific and South America, as well as the Europe region).

There are about 15 Europeans employed as expatriates around the world, although there are other European nationals employed outside this region on permanent compensation bases. The 15 European expatriates are located in: Hong Kong (2), Singapore (1), Latin America (1), and the USA (the remaining 11). Until Mr P. assumed his position as Personnel Director - Europe, the European expatriates in the US had very little contact with the European regional operations, despite their inevitable repatriation to the European region. Now, these expatriates are encouraged and provided with the resources to maintain contact with the European region.

Chemco utilizes two types of expatriate assignments. While the objectives of these two expatriate assignment types differ, it is recognized that similar issues, such as cross-cultural management issues, may be experienced. The first type of expatriate assignments are those of 3 to 5 years duration, with a stated objective of individual development. These assignments are intended as career moves.
policy for these expatriates includes a pre-assignment visit, to allow the individual to make arrangements such as housing.

The second type of expatriate assignments are those specifically for engineering or technical specialists. They move from one research and development plant to another. These latter assignments may be for 2 years duration or more. These assignments may not be career development moves as such; their purpose may be to fill positions or to share knowledge and learning. For these assignments, the preparation policy has recently introduced a pre-assignment visit. These employees were, in the past, treated with quite a different policy of expatriation terms and conditions. Recent changes have brought the expatriation policy for this group much closer to that of the first group. Mr P. has endeavoured to provide some level of personal contact with each expatriate. For example, he has met all of their families.

As described by Mr P., Chemco senior management have a substantial degree of knowledge of the requirements of effective expatriate management, although such knowledge is not always put into practice. Table 7.3 shows Chemco's expatriate selection & orientation policy has ten key points for attention. Mr P. admitted: "We actually do maybe one of these". In combination with their in-house actions, Chemco utilize services offered by several expatriation and relocation consulting groups, in the USA and around the world, including London.

Expatriate selection and orientation is fairly sophisticated and comprehensive, although one weakness is seen as the short planning time allowed. Eighty per cent of expatriate selection is controlled from the U.S. headquarters, a practice which was criticised by Mr P. as ethnocentric. Individuals make selection decisions without knowing the full effect of expatriation on the employee (and possibly the family). Screening candidates for expatriate assignments is not done in any rigorous manner. Although the policy decrees that the Regional Director will make the final decision, selection is "often a fait accompli before then".
Table 7.3. Chemco Expatriate Selection and Orientation Procedures

Success in an overseas assignment involves more than competence in job skills. Internationally assigned employees also need the skill of survival which includes stability, adaptability, and staying power in a different cultural environment. These factors also apply to the employee’s spouse and family.

The following procedures in identifying, selecting, and orienting expatriate employees and their families will contribute to the employee’s effectiveness, and to the satisfaction and well-being of the family.

1. To be considered for an international assignment, candidates should be judged to have substantial potential by their managers and the Corporate Manager Development Committee.
2. The overseas assignment should be in middle to high level management positions, with a duration of three to five years.
3. Candidates and their families will be carefully screened so as to minimize the effects of personal circumstances or problems on job performance.
4. The primary candidate and spouse will be granted one trip to the location to which they will be assigned prior to offer and acceptance.
5. Final selection is the responsibility of the Director of the receiving region.
6. Employees and spouses will get language training for a minimum of two months, and receive, at the discretion of the receiving Region, appropriate business and social cultural briefings.
7. A Chairman or appropriate functional manager will be assigned to each transferred employee to serve as an information source, to monitor job progress and performance during the assignment, to assess career interests, and to coordinate reassignment or repatriation to the U.S.
8. Human Resources managers will work with the employee and family in the U.S. to maximize preparation for the assignment. The employee’s spouse will be assigned a sponsor (wife of employee who lived overseas) to help plan and prepare for the assignment.
9. Regional Personnel Directors will have responsibility to provide on-site counselling and aid to help employee and family adjust to the new environment and become active in outside activities.
10. All expatriates will be listed with specific Manager Development Committees for subsequent job assignments and repatriation opportunities.

(Source: Chemco International Personnel Policy Manual)

Mr P. was of the opinion that expatriate briefings should be conducted before the final selection decision is made. This would provide the candidates (and possibly their families) with a realistic preview of the conditions of the expatriate assignment and ensure both the organization and the expatriates are as fully informed as possible of the expatriate conditions. The pre-move visit is of benefit to the expatriate with regard to practical issues such as house-hunting and general family decisions.
Expatriate performance appraisal has in the past been a fairly informal process. In the latter half of 1989, however, a new performance appraisal system was introduced, associated with training and development efforts. There is now a Committee in the European region for performance appraisal and training. Succession planning for expatriate managers is considered to be hindered by the lack of general attention to organizational deficiencies. Succession planning in Chemco is generally of a short-term focus.

Some attention has also been paid to assistance for the expatriate spouse and family, although further improvements are seen as necessary in this area. For example, despite the stipulation in the expatriate policy that a repatriate sponsor be provided for the expatriate spouse, this is often not the case in practice. One difficulty with this policy is that repatriates may unintentionally provide give out-of-date or inaccurate information, perhaps unaware of changes in the host environment. Mr P. felt that increased utilization of external consultants would help to improve this area of expatriate assistance.

Until Mr P. assumed his position as Personnel Director - Europe, there were 26 differences between the expatriate packages offered, between US nationals going to Europe and Europeans going to USA. This is now in the process of being changed, as Mr P. has established a team of 3 people with responsibility for identifying actions to be implemented. It is recognized that there are specific issues which will apply to the technical and engineering specialists, but the overall aim is to establish procedural justice in the worldwide compensation system.

The area of repatriation was deemed by interviewees to have received inadequate management in the past, and requiring improvements. Despite the policy requirement of listing of expatriates for subsequent job assignments and repatriation opportunities, Mr P. reported that this is not done. Specific incidents regarding difficulties experienced by repatriates ranged from basic lack of support to career progression difficulties. One critical incident provided by an interviewee referred to repatriates experiencing the return home with no-one to meet them at the airport, although a set
of car keys and a company car were provided. Another example of difficulties in repatriation related to a senior manager repatriating from Europe to the USA. There was no job for the manager upon his return, so "bits and pieces were created for him". The manager suffered lowered morale, as did those aware of the circumstances and concerned for their own futures. Interestingly, this manager has remained with Chemco, located in the USA.

Examples such as these have been suggested as causes of reluctance amongst US managers to accept expatriate assignments. For example, the position of general manager for Chemco in Japan was rejected by ten managers. Reasons cited by these managers included difficulties of culture and language, concerns about repatriation career progression, succession planning for their current position ("who will replace me here?"), and succession planning in Japan ("Will they find someone to replace me, when my time is up?").

**Industrial Relations**

It should be noted that Mr P. is in contact with subsidiary operations on all HRM issues except industrial relations. Matters related directly to industrial relations are deemed to fall under the jurisdiction of the national unit. This policy is intended to ensure local responsiveness to national industrial relations contextual conditions.

**SIHRM Outcomes**

Across the Chemco operations in Europe, employee turnover is very low, when compared with MNEs of similar size. Of the 600 professional employees, turnover in 1989 was approximately 10 per cent. Of the 130 managerial employees, turnover was close to zero. Average employee tenure at Chemco is over 10 years. One consequence of the low employee turnover and fairly high tenure is that the average age of Chemco employees is quite high, compared with MNEs of similar size. This reflects that fact that Chemco is quite a conservative organization in a conservative industry.
For intra-regional employees, such as a Chemco U.K. employee working temporarily in France as a third country national, all decision making is conducted within the European region. For example, compensation policies for these people are local. When, however, staffing arrangements escalate to the next level - that of expatriate employees assigned from US or other countries outside the European region - then decision making is centralized at Chemco headquarters in the US. Corporate policy then takes over. The apparent efforts against prevailing ethnocentrism in Chemco are suggested by interviewees' comments such as "They try not to differentiate between US and third country nationals, but in practice, they do".

Overall, investigation of Chemco's approach to SIHRM in the European Region provided preliminary indication of several issues relevant to SIHRM for Australian MNEs operating in the EU. For example, Davidson and Kinzel's (1995) research found that Australian MNEs provide less corporate support for expatriate employees than comparable US MNEs. It is evident that several aspects of Chemco's approach to SIHRM require improvement; it may follow that similar (and more) improvements would be necessary in Australian MNEs. As a leading US MNE with extensive experience in international business, Chemco may provide a 'best practice' benchmark for Australian MNEs to consider (Storey & Sisson, 1993).

Analysis of Research Propositions

The Chemco case study raises several interesting issues with regard to variables relating to: external issues, particularly issues related to the EU social dimension, endogenous organizational factors, and SIHRM issues, functions, policies and practices. These issues have implications for Australian MNEs in the EU and relate directly to the research propositions under investigation in this thesis. The Chemco findings with regard to the research propositions are shown in Table 7.4.
Table 7.4. Findings Related to Research Propositions Examined in the Chemco Case Study

<table>
<thead>
<tr>
<th>Research Proposition Under Investigation</th>
<th>Extent of Support Found</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P5(a)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P5(b)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(a)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(b)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(c)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(a)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(b)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(c)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(d)</strong></td>
<td>✓</td>
</tr>
<tr>
<td>MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
<td>✓</td>
</tr>
<tr>
<td>Research Proposition Under Investigation</td>
<td>Extent of Support Found</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>P8(a) An MNE's headquarter's international orientation will impact the ease of interaction among units</td>
<td>✓</td>
</tr>
<tr>
<td>such that interaction will be easier in MNEs with common or geocentric orientations and will be more</td>
<td></td>
</tr>
<tr>
<td>difficult in MNEs with unique or polycentric orientations.</td>
<td></td>
</tr>
<tr>
<td>P8(b) MNEs with a predominantly ethnocentric orientation will develop strategic IHR policies and practices</td>
<td>✓</td>
</tr>
<tr>
<td>regarding staffing, appraising, compensation and training which favor parent country employees.</td>
<td></td>
</tr>
<tr>
<td>P8(c) MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices</td>
<td></td>
</tr>
<tr>
<td>regarding staffing, appraising, compensation and training which are oriented towards host country employees</td>
<td>✓</td>
</tr>
<tr>
<td>P8(d) MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices</td>
<td></td>
</tr>
<tr>
<td>regarding staffing, appraising, compensation and training which do not differentiate between employees</td>
<td>✓</td>
</tr>
<tr>
<td>on the basis of nationality.</td>
<td></td>
</tr>
<tr>
<td>P9(a) The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies</td>
<td>✓</td>
</tr>
<tr>
<td>and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more</td>
<td></td>
</tr>
<tr>
<td>likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented</td>
<td></td>
</tr>
<tr>
<td>HR policies and practices.</td>
<td></td>
</tr>
<tr>
<td>P10(a) MNEs with limited experience in managing international operations will be less likely to change</td>
<td>✓</td>
</tr>
<tr>
<td>their strategic international HR policies and practices to accommodate local or regional demands.</td>
<td></td>
</tr>
<tr>
<td>P10(b) MNEs with more experience will be more likely to be effective in operating a more complex</td>
<td>✓</td>
</tr>
<tr>
<td>organizational structure than MNEs with less experience.</td>
<td></td>
</tr>
</tbody>
</table>


Key:
- ✓: Support found for this proposition
- X: No support found for this proposition
- Blank cell: This proposition was not appropriate for investigation in this case study.
This thesis investigated five propositions which deal with the implications of exogenous factors for SIHRM [P5(a) to P6(c)]. First, with regard to exogenous factors, Proposition 5(a) suggests that: The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to SIHRM issues in attempts to control and minimize risk and increase certainty and predictability. In addition, proposition 5(b) suggests that: The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding. P5(a) and P5(b) were supported in this case study. With regard to P5(a), the political and economic changes occurring within and around the industry in the EU are recognized by senior managers as rapid, intensive, and of global significance. Chemco managers have responded to such changes with strategic actions aimed to control and minimize risk, and maximize predictability. A high level of awareness of external conditions is maintained amongst senior management. Further, this awareness is linked to action such as revision of Chemco policies.

Chemco's approach also appears to provide support for Proposition 6(a): The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices. This is shown, for example, in their ownership patterns, including international joint ventures in less predictable national environments (Hendry, 1994). Furthermore, the frequent and detailed communication between the European units exemplifies efforts to achieve coordination within the region.

In contrast, recognition of legal and socio-cultural differences firstly between the US headquarters, and then between national European units, has led Chemco to adopt a decentralized approach with regard to SIHRM practices, (Brewster & Larsen, 1992). This suggests support for Proposition 6(b): The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity. Hence, the overall approach appears to be aimed towards achieving an effective

Proposition 6(c) postulates that: *The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.* There appear to be insufficient data in this pilot case to comment on this proposition. In subsequent data collection, in surveys and the major case study, the coverage will be broadened to ensure inclusion of relevant information.

The relationships between endogenous factors and SIHRM are investigated in this thesis through several research propositions. First, Chemco's matrix structure provides some information relevant to issues raised in the research propositions relating to organizational structure [P7(a) to P7(d)]. A matrix structure would be classified as a transnational structure, as it endeavours to combine local responsiveness (through reporting to a regional boss) and global co-ordination (through reporting to a functional boss). There appears to be some limitation however, on the extent of inter-unit networking in Chemco (Bartlett & Ghoshal, 1990; Ghoshal & Bartlett, 1990). While inter-unit networking appears to be effective within the European region, co-ordination with other geographic regions seems limited. This is shown, for example, in the limited communication between Mr P. and his functional boss in the USA. Overall, P7(d) is supported in the findings related to Chemco: *MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.*

Another endogenous factor, that of predominant headquarters international orientation, is investigated through Propositions 8(a) to 8(d). The predominant headquarters international orientation of Chemco appears to be a mixture of ethnocentrism, evidenced by centralization of several SIHRM issues, policies and practices, and regiocentrism, evidenced by some degree of autonomy granted to regional headquarters. As P8(a) postulates: *An MNE's headquarter's international orientation will impact the ease of interaction among units such that interaction will*
be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations. In support of P8(a), the mixed orientation evident at Chemco appears to have an impact on the frequency and likelihood of interaction among units, such that interaction is easier within the region than across regions (or between the region and headquarters).

Several elements of an ethnocentric orientation are prominent at Chemco. In support of P8(b), this orientation appears to have resulted in strategic IHR policies and practices which, at least in the past, have favoured parent country nationals. There is some evidence of a trend away from these practices. Revision of policies and increasing use of third country nationals suggest a move towards a geocentric orientation which will endeavour to develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality, as P8(d) predicts.

With regard to competitive strategy, evidence such as the communication patterns between Mr P. and national units provides an example of a unit pursuing a quality enhancement competitive strategy with participative, egalitarian and team-oriented HR policies and practices. This suggests support for P9(a) that: The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies and practices. Further, it suggests that HR policies and practices have an impact on strategic decision making, thus implying a reciprocal relationship between the two areas (Boxall, 1992), rather than a uni-directional, top-down influence (Schuler, 1992).

The influence of experience in international business of SIHRM is investigated through P10(a), which suggests that: MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands. Support for this propositions is found in this case, as Chemco, an organization with a long and successful history in international business, recognizes the need for adjustment to local or regional demands. This adjustment is managed through a degree of autonomy
provided to regional headquarters and resources for environmental analysis in order to ensure adequate understanding of local environments.

Finally, P10(b) suggests that: *MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.* In support of this proposition, Chemco appears to provide an example of an MNE with a great deal of experience, and evidence of effectiveness in operating a complex organizational structure. Investigation of other MNEs with a range of experience, as shown in the following chapters, is expected to provide the requisite contrast to enable full analysis of this proposition.

**Organizational Performance**

Comparison of performance statistics for Chemco in 1989 (the time of initial data collection) and 1994 (the most recent data available at the time of writing) is shown in Table 7.5. In 1994, Chemco shipped more product and generated higher sales and profit than in 1989. This was accomplished with a substantially smaller wages and salaries total, due to workforce reductions involving work redesign resulting in fewer positions. Further, staffing in the US operations has been reduced by 15 per cent, or 1,200 jobs from January 1994 to June 1995 (Chemco Chairman & CEO, 1995a&b). Overall, these performance data indicate that the organizational is consistently improving its performance.

**Future Developments**

Interviewees' predictions of future developments with regard to MNEs such as Chemco reflected a strong awareness of prominent trends in organization structure and HR strategies. The long term vision for Chemco is of a network organizational structure, with corporate headquarters as merely a shell. World headquarters of businesses are anticipated to be located around the globe, close to their conduct of
business (Jarillo, 1995). Decentralization of decision making is also anticipated to continue, implying some dilution of power emanating from headquarters in the USA. A specific implication for SIHRM is that the current approach, with some ethnocentrism amongst the senior management, requires revision. This may include selection and promotion of host country and third country nationals, combined with training (and possibly 'de-programming') of ethnocentric parent country nationals. Ethnocentrism in Chemco has led to some centralization of decision-making processes. Chemco management view the organization as typical of leading edge, experienced US MNEs, yet needs to develop key positions are located close to their point of business, and to ensure that all major subsidiaries are involved in strategic decision making.

Table 7.5. Chemco: 1989 and 1994 Company Statistics

<table>
<thead>
<tr>
<th>Statistics</th>
<th>1989</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>US$ 2,661m</td>
<td>US$ 3,534m</td>
</tr>
<tr>
<td>Gross profit</td>
<td>US$ 841m</td>
<td>US$ 1,267m</td>
</tr>
<tr>
<td>Net earnings applicable to shareholders of</td>
<td>US$ 176m</td>
<td>US$ 257 m</td>
</tr>
<tr>
<td>common stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividends</td>
<td>US$ 77</td>
<td>US$ 102 m</td>
</tr>
<tr>
<td>Capital additions</td>
<td>US$ 385</td>
<td>US$ 339 m</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>US$ 632m</td>
<td>US$ 481m</td>
</tr>
<tr>
<td>Depreciation</td>
<td>US$ 150m</td>
<td>US$ 231 m</td>
</tr>
<tr>
<td>Total assets (as of Dec. 31)</td>
<td>US$ 2,455m</td>
<td>US$ 3,861m</td>
</tr>
<tr>
<td>Stockholders' equity</td>
<td>US$ 1,311m</td>
<td>US$ 1,620m</td>
</tr>
<tr>
<td>Total debt-to-equity ratio</td>
<td>40.5%</td>
<td>44%</td>
</tr>
<tr>
<td>Return on common stockholders' equity (ROE)</td>
<td>14%</td>
<td>16%</td>
</tr>
<tr>
<td>Earnings per common share</td>
<td>$2.65</td>
<td>$3.79</td>
</tr>
<tr>
<td>Dividends per common share</td>
<td>$1.16</td>
<td>$1.44</td>
</tr>
</tbody>
</table>

(Source: Chemco company documents; Chemco home page, 1995).
Chemco is a large MNE with a wealth of experience and resources in international business. While the organization has not been without difficulties over its years of operations, Chemco has withstood environmental turbulence and developed its areas of strengths, to become a major world player in its industry. Chemco appears to have effective awareness and responsiveness to exogenous factors, indeed regarding intense and rapid change with optimism.

While the strategic focus is on innovation, it is still recognizable as a fairly conservative and ethnocentric company with regard to a range of SIHRM practices. The policies which were quite advanced in 1989 now appear outdated. Chemco has maintained strong performance, through continued efforts to refine the 'fit' between external factors, endogenous factors, and SIHRM policies and practices. It seems logical to conclude that there is evidence of interaction and reciprocity between these three areas for Chemco's European regional operations.

Overall, the case study of Chemco in the European Union provides a preliminary indication of issues related to the research questions and propositions posed in this thesis. The Chemco case study raises several interesting issues with regard to variables relating to: external issues, endogenous organizational factors, and SIHRM issues, functions, policies and practices. Issues raised in this case study have a variety of implications for Australian MNEs in the EU. In the following two chapters, data collected with regard to Australian MNEs in the EU will be analysed.
Summary

Chemco is a large MNE with a wealth of experience and resources in international business. While the organization has not been without difficulties over its years of operations, Chemco has withstood environmental turbulence and developed its areas of strengths, to become a major world player in its industry. Chemco appears to have effective awareness and responsiveness to exogenous factors, indeed regarding intense and rapid change with optimism.

While the strategic focus is on innovation, it is still recognizable as a fairly conservative and ethnocentric company with regard to a range of SIHRM practices. The policies which were quite advanced in 1989 now appear outdated. Chemco has maintained strong performance, through continued efforts to refine the 'fit' between external factors, endogenous factors, and SIHRM policies and practices. It seems logical to conclude that there is evidence of interaction and reciprocity between these three areas for Chemco's European regional operations.

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CHAPTER 8.
SURVEYS OF STRATEGIC INTERNATIONAL HRM IN AUSTRALIAN MNES OPERATING IN THE EUROPEAN UNION

Objectives of this Chapter

This chapter reports on the findings of two surveys conducted with senior managers and human resource managers in Australian MNEs operating in the EU. The first survey was conducted in December 1992, the second in December 1994. The aim of these surveys was to provide preliminary, broad-level exploration of issues related to exogenous influences, endogenous characteristics, and SIHRM functions of these enterprises. These issues are analysed with regard to the research questions and propositions posed for this thesis.

Rationale for the Surveys

Previous research by Dowling (1989) raised issues relevant to the present study. Dowling (1989) gathered data on MNE structure and international HRM practices, as well as identifying practitioners' views of important issues. The present research provides a replication and extension of Dowling's (1989) survey.

Sample Characteristics

The survey sample was identified through numerous listings of Australian MNEs, including the Australian Financial Review (1992; 1994) shareholders' handbook, Australian Stock Exchange listings; business magazines; company annual reports;
Austrade (1992; 1994b). The criteria for inclusion in the sample were: majority Australian ownership and some reported presence in the EU.

In the 1992 survey, a total of 78 Australian MNEs were targeted, and self-administered questionnaires mailed to the person with most senior responsibility for (international) HRM, after telephone contact. Follow-up letters were sent after four weeks. In 43 firms (55%) a title related to HR/Personnel (or Administration) was identified; in 35 firms (45%), various other people were recommended. 11 (14%) of the 78 are female, 1 was Director HR, 1 General Manager HR, 7 Manager (HR, Personnel or Administration), 1 HR Executive, and 1 HR Coordinator. Twenty-four responses (30.8%) were received in total.

In the 1994 survey, a total of 83 Australian MNEs were targeted by replicating the 1992 sample list, with additions and deletions based on enterprise appearance or demise. As in 1992, telephone contact was used to verify the most suitable recipient for the mailed questionnaire and follow-up letters were sent after four weeks. In 29 firms (34.9%) a title directly related to HR/Personnel was identified (with strong similarity to titles evident in the 1992 sample). In the remaining 54 firms (65.1%), general managers, CEOs and Managing Directors were identified (particularly for smaller firms). Twenty-one usable responses were received (a response rate of 24.1%).

Nine enterprises responded to both the 1992 and 1994 surveys, providing a subsample for repeated measures. These response rates were considered to be an adequate representation of the sample populations, given the exploratory nature of the research.

Reasons for other job titles included: "we don't have anyone really responsible for HR here", or "the Financial Controller has that responsibility".
Design and Procedure

As discussed in Chapter 6, survey questionnaires for Australian MNEs (see Appendices 2.1 to 3.2) were developed on the basis of prior empirical research, the research questions, and research propositions. Both Dowling (1989) and the Australian questionnaires sought information on the respondent's company, the structure of its international operations and SIHRM activities, and the identification of present problems and current issues in the field. In the questionnaires for the present study, the focus was on the implications of the EU social dimension for the respondents' enterprise. The two Australian questionnaires asked identical questions, with an additional question asked in the 1994 survey, reflecting issues which had been raised in the first data collection.

For all surveys, the first section focused on enterprise characteristics. Information was sought on: ownership of the company; location of world headquarters; total number of employees (around the world); percentage of non-local employees in operations; total world annual sales; percentage of total worldwide annual sales represented by EU sales; spread of assets worldwide; main product and/or service lines; year of entry into international business; number of countries in which the company does business; year of entry into the EU market countries; in which EU countries the company does business; and the nature of business in the EU.

The second section focused on the structure of international operations and whether the human resources function is structured in a similar way. The third section focused on SIHRM activities. Respondents were asked whether and in what role(s) expatriate employees are brought to Australian operations; to what extent there is a formalized HR planning process to determine staffing needs; whether there are formalised policies for expatriate management, including selection, training, performance appraisal, and compensation.

The fourth section focused on EU issues for the MNE. Respondents were asked to nominate, the most important current issues related to managing in the EU; the main
HRM problem areas related to their business in the EU at present; the major future HRM implications of the Single European Market; and the impact on their company of the European Union social dimension. Respondents were also invited to provide any additional comments.

Results

Enterprise Characteristics and Presence in the European Union

In the 1992 survey, 14 (58.3%) respondents were from fully Australian owned enterprises and 10 (41.6%) were majority Australian owned. In the 1994 sample, 14 (66.7%) were fully Australian owned and 7 (33.3%) were majority Australian owned. All had world headquarters located in Australia.

Table 8.1 shows data for organizational size of the samples surveyed by Dowling (1989) in the U.S., and the present study of Australian MNEs in 1992 and 1994.31 There is a wide range of world sales although the Australian MNEs are smaller, as might have been expected. In terms of nondomestic sales (for the US survey) and EU sales (for the Australian survey) as a percentage of total world sales, the figures are interestingly similar. If sales representation is an important predictor of attention paid within an organization, similar levels of concern with host environment issues might be expected to follow. The level of EU sales as a percentage of total worldwide sales was slightly less in 1994 (median = 10%) than in 1992 (median = 15%). This might reflect some shift of focus amongst Australian enterprises from the EU towards the Asia-Pacific region (Australian Bureau of Statistics, 1994b; Department of Foreign Affairs & Trade, 1994b). As shown in Table 8.1, t-tests found no significant differences between the 1992 and 1994 samples in terms of total world annual sales or EU sales as a percentage of total world sales.

31 As the Australian surveys in the present study are a replication and extension of Dowling's (1989) survey of U.S. MNEs, the U.S. data are presented here for comparison purposes. Financial data are expressed in $US for consistency and comparability to Dowling (1989).

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</tr>
</thead>
<tbody>
<tr>
<td>Total world annual sales (USD million)</td>
<td>47 - 100,000</td>
<td>2041</td>
<td>4.3 - 7,155,672</td>
<td>430</td>
<td>7.7 - 127,000</td>
<td>789</td>
<td>t = 0.984</td>
</tr>
<tr>
<td>Per cent nondomestic / EU sales*</td>
<td>3% - 70%</td>
<td>33.5%</td>
<td>3% - 100%</td>
<td>15%</td>
<td>0.06% - 60%</td>
<td>10%</td>
<td>t = 1.175</td>
</tr>
<tr>
<td>Years of involvement in international business</td>
<td>1 - 86</td>
<td>25</td>
<td>3 - 152</td>
<td>15</td>
<td>6 - 94</td>
<td>11</td>
<td>t = 0.858</td>
</tr>
<tr>
<td>Total number of employees</td>
<td>1,100-405,535</td>
<td>16,500</td>
<td>6 - 48,339</td>
<td>897</td>
<td>8 - 49,600</td>
<td>1150</td>
<td>t = 2.017*</td>
</tr>
<tr>
<td>Number of employees in EU</td>
<td>n.a.</td>
<td>n.a.</td>
<td>3 - 9,000</td>
<td>198</td>
<td>1 - 8,276</td>
<td>60</td>
<td>t = 2.024</td>
</tr>
<tr>
<td>Number of countries of business worldwide</td>
<td>2 - 149</td>
<td>16</td>
<td>2 - 60</td>
<td>12</td>
<td>3 - 100</td>
<td>14</td>
<td>t = 457</td>
</tr>
<tr>
<td>Number of EU countries of business</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1 - 12</td>
<td>3</td>
<td>1 - 16</td>
<td>4</td>
<td>t = 0.917</td>
</tr>
</tbody>
</table>

* For the US MNEs = nondomestic as percentage of total world annual sales; For Australian MNEs = EU as percentage of total world annual sales.

* Significant at p < 0.05 level.
With respect to the number of employees, the Australian MNEs are smaller than the US MNEs. The Australian MNEs in the 1992 sample were smaller in terms of employee numbers than were the MNEs in the 1994 sample. A t-test revealed significant difference between the two groups (t = 2.017, p<0.05). For the Australian MNEs in 1992, the number of employees in the EU ranges from 3 to 9,000 (median=198); in 1994 this ranged between 8 and 49,600 (median = 1,150). Further inspection of the data revealed that 19 MNEs in the 1992 sample had employees in locations other than Australia and the EU (range = 3 - 14,300, median 320). For the 1994 sample, 20 MNEs had employees in locations other than Australia and the EU (range = 1 - 13,131, median 200). In 1994, 16 of these MNEs had employees in the South-East Asian region (range = 1 - 5,614, median = 20).

There was a wide range with regard to the length of time US (median = 25 years) and Australian MNEs (1992 median= 15; 1994 median = 11) have been involved in international business. Table 8.1 shows that the US MNEs had a wider range of countries of business than did the Australian MNEs, but the medians are quite similar (U.S.= 16; 1992 = 12; 1994 = 14). No significant differences were found between the 1992 and 1994 samples with regard to length of time or number of countries of international business.

As shown in Table 8.2, 21 (87.5%) of the Australian MNEs in the 1992 sample and 14 (66.6%) of the MNEs in the 1994 sample had entered the EU before the Single European Act was enacted in 1987. Thus, the majority in both groups had substantial experience in doing business in the EU. There was no significant difference between the 1992 and 1994 groups with regard to years of experience in the EU.

The Australian MNEs' countries of EU business are shown in Table 8.3. The United Kingdom has traditionally been a first point of business for many Australian firms entering the EU, reflecting history and language. Not surprisingly, almost all respondents in both surveys reported that their firms conducted business in the United Kingdom (22 in 1992; 20 in 1994).
Table 8.2. Australian MNEs: Year of Entry to the EU Market

<table>
<thead>
<tr>
<th>Year of Entry</th>
<th>1992 Responses</th>
<th>1994 Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1955</td>
<td>5 (20.8%)</td>
<td>4 (19.0%)</td>
</tr>
<tr>
<td>1955 - 1984</td>
<td>6 (25%)</td>
<td>7 (33.3%)</td>
</tr>
<tr>
<td>1985 - 1987</td>
<td>10 (41.7%)</td>
<td>3 (14.3%)</td>
</tr>
<tr>
<td>1988 - 1990</td>
<td>3 (12.5%)</td>
<td>5 (23.8%)</td>
</tr>
<tr>
<td>1991 - 1992</td>
<td>0</td>
<td>1 (4.8%)</td>
</tr>
<tr>
<td>1993 - 1994</td>
<td>n.a.</td>
<td>1 (4.8%)</td>
</tr>
</tbody>
</table>

Table 8.3. Australian MNEs: EU Countries of Business

<table>
<thead>
<tr>
<th>EU Countries</th>
<th>1992 Responses</th>
<th>1994 Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Denmark</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Greece</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Italy</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Ireland</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Portugal</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Austria</td>
<td>n.a.</td>
<td>6</td>
</tr>
<tr>
<td>Finland</td>
<td>n.a.</td>
<td>5</td>
</tr>
<tr>
<td>Sweden</td>
<td>n.a.</td>
<td>5</td>
</tr>
</tbody>
</table>

Most of the survey respondents reported that their firms operate in more than one EU member state. France, Germany, the Netherlands and Spain followed the United
Kingdom in terms of number of respondents with presence in those countries. Further inspection of the data revealed that 4 of the MNE respondents in 1992 operated in the United Kingdom only; and 6 of the MNE respondents in 1994 operated in the United Kingdom only. It is also interesting to note that the Australian MNEs in the 1994 group already show some presence in the most recent additions to the EU: Austria, Finland and Sweden. These findings broadly support the Australian-EU trade statistics discussed in Chapter 4, suggesting that the survey respondents are consistent with Australian patterns of trade with the EU (Australian Bureau of Industry Economics, 1995a; Department of Foreign Affairs and Trade, 1994a; 1994b).

Products and/or services of the Australian MNEs in both 1992 and 1994 surveys included: banking/finance; property (investment; rental); insurance; travel; transport; minerals; sales promotion and marketing; and manufacturing (e.g. food products, beverages, clothing, automotive, chemicals, packaging, and health & beauty products). In the 1992 group, for 23 MNEs, the main services or products offered in the EU replicated those in Australia. Thirteen of the 24 had only one main product or service; 2 MNEs reported 2 main products or services; and 9 reported at least three (median = 1). The 1994 sample showed greater diversity in terms of products/services. For 19 MNEs in the 1994 sample, the main services or products offered in the EU replicated those in Australia. Only 4 of the 21 had only one main product or service; 7 had a second; and 9 reported at least three (median = 3). These included Australia's largest internationalized firms and were representative of national business strengths overall (Australian Bureau of Statistics, 1994d, 1995c; Australian Manufacturing Council, 1994). The 1994 respondents also reflected some new growth areas for Australian industry, as the main products or services also included: management consulting; hospitality (hotel management); security; and computer software sales (Austrade, 1994a; Department of Foreign Affairs & Trade, 1994b).

Table 8.4 shows the Australian MNEs have a variety of business types in the EU. In both the 1992 and 1994 groups, wholly-owned operational subsidiaries were the most common type of business, followed by export. This broadly reflects the Australian data regarding dominant forms of internationalization in Australian enterprises, such
as the finding by Yetton et al. (1992) that successful Australian international manufacturing enterprises follow a pattern to capitalise on their competitive advantage through multidomestic strategies of producing in their countries of sale.

Table 8.4. Australian MNEs: Types of Business in EU

<table>
<thead>
<tr>
<th>Nature of Business in EU</th>
<th>1992 Responses</th>
<th>1994 Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Investment</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Agency</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Sales offices &amp; promotion</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Distribution</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Licensing agreement</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Operational subsidiary</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Joint venture</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Franchise</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

*: Respondents may have provided multiple responses, indicating more than one type of business.

In the 1992 group, 17 MNEs reported that they had only one type of business in the EU; 3 MNEs reported two types; 2 MNEs reported 3 types; and 2 MNEs reported having 5 types of business in the EU. In the 1994 group, 12 MNEs reported that they had only one type of business in the EU; 5 MNEs reported two types; 1 MNE reported four types; and 3 MNEs reported having 5 types of business in the EU. This range of activity indicates that these MNEs have experience in a variety of structural forms, either as evolutionary stages or as types of internationalisation (Doz & Prahalad, 1991; Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1993).

Analysis of Research Questions

Question 1: Exogenous Factors and Australian Multinational Enterprises

The first research question posed in this thesis referred to the importance of
exogenous factors for Australian MNEs in the EU:

In what ways are environmental factors such as government actions, regional economic activity, and cultural diversity, influential for Australian MNEs operating in the EU?

As the surveys were intended to elicit the respondents' perception of relevant issues, for further exploration, the first research question was probed through open-ended questions which asked about issues related to business in the EU. First, a general question was posed: "What do you feel are the most important issues related to managing in the EU?" Interest and concern regarding the EU environment were found across the 1992 and 1994 groups. Content analysis was used to organize responses into appropriate categories. For the 1992 group, answers were in five main categories.

First, perceived inequities for non-EU enterprises were reported; with typical responses including: "there is a lot of bureaucracy for foreign companies to cut through - it is relatively easy for other European countries", "subsidies", "no access for our exports".

Second, EU bureaucracy was cited as an issue of annoyance or concern, for example: "Knowledge of the EC rules and regulations governing member states: 1) increased administration of information/taxes to meet local government requirements, 2) increased product competition"; and "Excessive bureaucracy".

Third, specific HRM or industrial relations issues were cited, such as: "Recruitment of locals", "Fairness in compensation programs", and "Managing industrial/employee relations issues".

Fourth, general management issues of EU integration received a number of comments, including: "Single market trading, cross border trading, and cultural understanding of the different management styles that exist" or "Addressing each country/market individually as major cultural implications remain". Also, respondents
referred to host country conditions, for example: "Overall, nationalism within EC countries is still very prevalent. Overcoming these 'prejudices' is very important", or "The current state of depression through the EC" or "UK economy is a disaster. Unemployment too high".

Finally, several respondents commented on future developments in the EU, for example: "Issues really have not touched us yet because we have operations only in England & Ireland. I anticipate superannuation, language skills, and social security costs to become major issues".

For the 1994 respondents, almost all responses were concentrated in only two categories: specific HRM or industrial relations issues and general management issues of EU integration.

With regard to specific HRM or industrial relations issues, the majority of concerns in the 1994 group related to recruitment and selection, for example: "recruiting people with skills for the future". Others referred to industrial relations issues, such as "Coordinating our approach to the trade unions".

With regard to general management issues of EU integration, comments in the 1994 group appeared to reflect some experience of difficulties, for example: "Gaining employee trust post-recession"; "Possible political interference at country level". Several respondents specifically mentioned legislation, for example: "Regulations from European court judgements" and "Environmental legislation affecting industries such as ours". Several comments in 1994 indicated some cultural differences or difficulties, for example: "Making sure you choose the right partner in Europe - who has local European knowledge but Anglo-Saxon management practices, because the Europeans aren't good at managing pan-European businesses - they're too parochial!"); "The British head-in-sand mentality & the French non-cooperation mentality"; "Different attitudes / cultures"; and "Multicultural integration of quite diverse European communities". Some provided interesting views indicating cultural stereotypes, such as: "German and English managers have completely different approaches to problem
solving; e.g. Swiss staff do not like to be delegated large responsibilities and prefer well defined and unchanging job descriptions.

A new category of issues emerged in the 1994 group, as several respondents mentioned competitiveness, reflecting evidence of the EU as a highly competitive market. Typical comments were: "Achieving competitiveness in European business" and "Competition in markets". Several linked competitiveness issues with management capabilities, for example "Achieving depth of management, and management capability to support identified business strategies". It is interesting to consider whether this new issue reflects a greater awareness of competitiveness issues, or a greater perception of lack of Australian skills or expertise in this area (Dischamps, 1993; Enterprising Nation, 1995).

Overall, these categories raised by the survey respondents cover the spectrum of exogenous factors cited in the first research question, by including government actions, regional economic activity, and cultural diversity.

**Question 2: The EU Social Dimension and Australian MNEs**

The second research question for this thesis is:

*What will be the implications of the EU Social Dimension for Australian MNEs operating in the European Union?*

To explore this, a direct question was presented in the surveys: *What has been the impact on your company of the European Union Social Dimension?*

With particular regard to the EC Social Charter and Protocol, the overwhelming response in 1992 was one of having "no awareness", or "no significant impact at this stage". One reported "Virtually none, except for the bureaucracy involved". Several responses were typified by the comment: "these issues are covered by EU subsidiaries", reflecting a decentralized approach to HRM concerns. Several expressed strong opinions, such as the following eloquent example:
The standardisation of labour/employment laws and practices is a nonsense; academically attractive to the left, but counter-productive in practice. Each country is always going to be at a different point in the economical cycle, with different levels of unemployment and needs to address the productivity issue in different ways. Britain, in particular, has negotiated itself out of many of the more restrictive employment practices which have been common in Europe (more or less) for some time.

By 1994, respondents were much more aware of the impact of the social changes in the EU. Those who did not perceive a great deal of impact provided explanation such as: "Limited impact, due to our small employment". Three respondents indicated their firms are wary of developments, for example: "The jury is still out at the moment!" Continuing negativity and concern was evident in comments such as: "In my view the Social Charter represents the arbitrary imposition of standards and conventions which are inappropriate. Much of it will prove indigestible".

The research question was further probed in the surveys by asking "What are the main HRM problem areas related to your business in the EU for your company at present?"

Responses in 1992 could be grouped into two main categories. First, host environment changes were cited, typified by the comment: "Managing the various industrial relations environments and the process of `decentralised' IR taking place in many European countries currently". Second, specific SIHRM issues were evident, for example: "language and language training"; and "training for the management of cross-cultural differences".

A small number of respondents reported limited concern in this area, typically due to a smaller than average presence in Europe. Some negative prediction was evidenced in one comment: "None at present. Prospectively it seems mainly related to uncertainties created in employment law. eg fears about increasing socialist focus".

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For the 1994 group, a noticeably greater focus upon SIHRM issues and functions emerged, with more detailed knowledge suggested. One response which may be interpreted to suggest awareness of SIHRM issues of integration & local responsiveness was: "Issues relating to organisational structure across Europe of relevance to managing the diversity of markets and culture". Awareness of equity issues was also reported, typified by the comment: "Standardising performance / remuneration criteria so that it is fair to all members of group and imbuing all overseas branches with the company culture & ethic". By far the most frequent response referred to recruiting and developing human resources, for example: "Recruiting people with the skills for the future"; "Obtaining skilled staff"; "Developing people offshore to understand and be committed to the group culture and philosophies"; "Availability of qualified resources in some countries"; "Replacing expatriates with locals"; and "Lack of management depth". The issue of recruitment and development was also related to concerns about integrating a workforce across national borders, shown in comments such as "Dealing with (and overcoming) preference for national careers".

The relationships between the various external factors discussed with regard to research questions 1 and 2, and SIHRM in Australian MNEs, are explored further, in relation to the research propositions [P5(a) to P6(c)], later in this chapter.

**Question 3: Issues related to SIHRM for Australian MNEs Operating in the EU**

The third research question posed in this thesis is:

*What are seen as the key current and emerging issues related to SIHRM for Australian MNEs operating in the EU?*

To probe this research question, a general question was posed in the surveys: "*What are the major future HRM implications of the EU for your company?*

Several respondents reported issues of *co-ordination and integration in HRM and industrial relations*, typified by the comments: "For those companies who conduct
business across a number of EC countries, I believe that 'consistency' in HRM policies, procedures and issues will be a major task in the future"; and "EC countries are progressing at different rates in relation to industrial relations and change at the enterprise level, the British Conservative agenda versus deregulation of IR throughout Europe is a key example".

Labour mobility through the EU was a common issue, with responses such as: "Ease of movement of skilled employees"; "Increase in cross-border staff movements"; "Mobility and cost of labour"; and "People driven to more successful countries, leaving skill shortages elsewhere".

A small number of specific HRM functional issues were raised, particularly "language training". Performance-related issues were also raised, such as "potential operation consolidations resulting in workforce reductions".

In the 1992 group, four respondents foresaw no or little impact on their businesses. As with previous questions, the 1994 group provided comments indicating a greater depth of experience in the EU.

First, several responses highlighted European unification issues, such as: "The EU is certainly accelerating cross-fertilisation and bringing down past barriers. Differences in compensation will become more difficult to manage as border disappear"; "The need to perceive Europe as a single market will impact on HRM policies"; and "More standardisation".

Second, competitiveness issues emerged in 1994, this time exhibiting concerns which may underlie the shift in trade focus towards the Asia-Pacific region, for example: "High employee on-costs (social security particularly)"; and "Relatively low productivity of Europeans - the EU needs to address this vis-a-vis US/Asia with whom they need to compete, eg. Investment in biotechnology is flowing from Europe to USA".

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Third, cross-cultural issues were again highlighted, with responses such as: "Mixing/blending the individual European cultures as expansion takes place"; "Cultural and language issues"; and "Respect the local cultures and use their contacts for business but be confident enough to know we do it better and lead from the front!"

Fourth, performance-related (cost management) issues were more prominent in 1994 than in 1992, with several respondents contributing comments on this issue, such as: "Cost-reduction of national structures"; and "Continuing management of workforce reduction/job losses".

Fifth, specific HRM functional concerns included: "Input on terms and conditions"; and "Expatriation within the EU" (reflecting the issue of labour mobility again).

Finally, several comments reflected more general experience in international business challenges brought by global change, typified by this comment: "Managers and employees of trans/multinationals need to understand international money market forces affecting their jobs and forcing the globalization of business (dealing with change?)".

To provide some indication of whether experience in the EU differed from SIHRM issues in general, an additional exploratory question was added in 1994 survey: "What do you consider to be the most important issues you are facing with regard to international human resource management (HRM)?"

Only one respondent said this was not a major issue: "Due to the small number of overseas staff [2 in EU] no significant issues arise"; 17 of 21 provided responses to this question.

By far the most commonly cited issue was human resource development and management development, with comments including: "Global staffing challenge and developing globally-aware management"; "Effective spread of management development processes"; "Finding locals who are then brought to Australia for
Another common category of response referred to *cross-cultural and cross-national* issues, such as: "Different attitudes / cultures"; "Management of cultural issues"; "Addressing needs of different cultures & laws"; "Doing business in other countries; employment laws etc."; "Finding Europeans with the right mix of 'cultural compatibility (business) for an Australian company doing international business".

Several respondents simply named a specific HRM function, for example: "Salary arrangements"; "Performance appraisal"; "Selection"; "Expatriate re-employment in Australia"; and "Development of consistent policies which are seen to be fair".

Finally, one respondent took a *holistic* approach, providing a comprehensive list of concerns which seemed to encapsulate all other comments (and to represent a 'wish-list' for SIHRM):

- Mature management culture/practice;
- International assignment/cadres policies which fit;
- Managing increasingly skilled workforces;
- Performance measurement and reward;
- Continuing business efficiency; continual improvement;
- Increasing international mobility ... world getting smaller;
- Effective management of an international cadre;
- Increasing aspirations of developing countries;
- Changing employment relationship .. new paradigm principally created by technology (eg. the home/mobile office);
- Collaborative workforce culture/values ie. one business (integration).

Overall, several SIHRM which apply to Australian MNEs have been identified in the survey responses. These are related to a broad range of aspects related to working and living conditions in the EU, and are discussed in more detail with respect to the
fourth research question.

Question 4: Empirical Evidence of SIHRM in Australian MNEs in the EU
The fourth research question posed in this thesis is:

*What empirical evidence is there of SIHRM in Australian MNEs operating in the EU?*

To explore this research question in the surveys, a series of closed and open-ended questions were posed, related to organizational structure and to SIHRM issues, functions, policies and practices. Organizational structure was selected as the most appropriate endogenous factor for focused investigation in the surveys. This replicated the approach taken by Dowling (1989).

For both US and Australian MNEs (1992 and 1994 surveys), there is considerable diversity in the *structure* of international operations (shown in Table 8.5). The majority use 'traditional', or less complex, structures such as national subsidiaries with local co-ordination of functions (US=12%; 1992=37.5%; 1994=3.3%); international divisions (US=14.7%; 1992=20.8%; 1994=33.3%); regional headquarters (US=20.6%; 1992=12.5%; 1994=19.1%); world-product or world-matrix structure (US=17.6%; 1992=8.3%; 1994=0%). A noticeable minority (US=35.3%; 1992=20.8%; 1994=14.3%) use mixed forms of structure, reflecting a more complex approach to international business.

In the 1992 sample, four alternative and quite complex organizational structures were reported. First, a respondent described his/her company structure as "Head offices in Australia with marketing and treasury operations in USA, UK & Japan". A second respondent described a mixed structure with "international division structure with senior management reporting to President or CEO of company and one or more regional headquarters used to coordinate production/services, marketing, and human resources among national operations". A third respondent reported a structure with "International operations organised with national subsidiaries with regional, e.g.
Europe or US coordination of finance, marketing, and HR services". Fourth, a respondent described his/her company structure as "National subsidiaries with local coordination of product/services, marketing, human resources, etc., with senior management reporting to President or CEO of company based in Australia".

Table 8.5. Comparison of Organizational Structure in US (Dowling, 1989) & Australian (1992 and 1994) MNEs

<table>
<thead>
<tr>
<th>Organizational structure</th>
<th>US</th>
<th>1992</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>National subsidiaries with local coordination of functions</td>
<td>11.8%</td>
<td>37.5%</td>
<td>33.3%</td>
</tr>
<tr>
<td>International divisions</td>
<td>14.7%</td>
<td>20.8%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Regional headquarters</td>
<td>20.6%</td>
<td>12.5%</td>
<td>19.1%</td>
</tr>
<tr>
<td>World-product or world-matrix structure</td>
<td>17.6%</td>
<td>8.3%</td>
<td>0</td>
</tr>
<tr>
<td>Mixed structure (some combination of those above)</td>
<td>35.3%</td>
<td>20.8%</td>
<td>14.3%</td>
</tr>
<tr>
<td>Is the Human Resources function structured in a similar way to the company's international operations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>55.9%</td>
<td>54.2%</td>
<td>66.7%</td>
</tr>
<tr>
<td>No</td>
<td>44.1%</td>
<td>45.8%</td>
<td>33.3%</td>
</tr>
</tbody>
</table>

In the 1994 sample, a number of mixed, or hybrid, organizational structures were again reported. These included: "mixture of international divisions and regional headquarters: regional basis UK sector and Asia Pacific. Regional heads report to international division structure"; "mix of national subsidiaries, international divisions and regional headquarters"; and "mix of international division structure and world-product or world-matrix structure".

Overall, Australian MNEs were more likely to use the less complex types or stages of internationalization than were the US MNEs. For the US sample, 26.5% had either a national subsidiary or international division structure. In marked contrast, the
The majority of the Australian MNEs were in these two categories (1992: 58.3%; 1994: 66.6%). The findings with regard to organizational structure will be discussed further with respect to the research propositions [P7(a) to P7(d) and P10(b)].

**SIHRM Issues, Functions, Policies and Practices**

Investigation of SIHRM in Australian MNEs participating in these surveys identified several issues relevant to SIHRM for Australian MNEs operating in the EU. A range of SIHRM functions, policies and practices were examined in the surveys. The surveys asked "Is there a formalized HR planning process to determine staffing needs?". The majority (US=55.6%; 1992=54.2%; 1994=33.3%) reported some formalized HR planning; 32.4% of US; 16.6% of 1992 MNEs; and 23.8% of 1994 MNEs reported a well-developed HR planning process. Presumably, this indicates that a higher proportion of Australian MNEs (1992=25%; 1994=42.9%) than US MNEs reported having no formal HR planning. No significant difference was found between the 1992 and 1994 respondents with respect to HR planning (t = 0.463, n.s.)

With respect to staff transfers, Dowling (1989) found a significant negative correlation (r = -.54, p<0.001) between length of time in international business and transfer of HCNs and TCNs to the parent country (US). In other words, "those companies that had relatively limited experience in overseas operations tended not to transfer HCNs and TCNs to their U.S. operations" (Dowling, 1989: 68). For both the 1992 and the 1994 respondents, no significant relationships were found (1992: r = 0.034, n.s.; 1994: r = -.311, n.s.).

In the 1992 group, of the 9 MNEs with more than 30 years of international business experience, 3 transferred HCNs and TCNs, while 6 did not. In contrast, the 6 respondents in 1994 with more than 30 years international business experience all reported that they transfer HCNs and TCNs to Australia. Thirteen (54.2%) Australian MNEs in the 1992 group, and 12 (57.1%) in the 1994 group, reported utilising staff transfers to headquarters, for purposes categorized as shown in Table 8.6.
Respondents often cited multiple purposes for these staff transfers. These purposes appear to reflect and extend Edström and Galbraith's (1977) identified purposes of expatriation and staff transfers, as noted in Chapter 5.

Table 8.6. Australian MNEs: Purposes for Transferring HCNs and TCNs to Parent Country

<table>
<thead>
<tr>
<th>Purposes for Staff Transfers to Parent Country</th>
<th>1992 (n=13)</th>
<th>1994 (n=12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational/training</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>To fill positions</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Orientation/rapport building</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Task-related discussions</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Line management positions aimed to improve career development</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>&quot;Australians being repatriated to any available position&quot;</td>
<td>-</td>
<td>1</td>
</tr>
</tbody>
</table>

Some variations in staff transfers are shown between the 1992 and 1994 groups, although the most commonly cited reason is to fill positions. While this may reflect a less than strategic approach to staff transfers, it may be seen as encouraging that in 1994, four MNEs reported transferring HCNs and TCNs to Australia for line management positions aimed to improve career development. Perhaps on a more disappointing note, one respondent referred only to "Australians being repatriated to any available position", indicating a purpose of filling positions, and suggesting potential for the commonly documented problems of repatriated employees (Black & Gregersen, 1991c; Forster, 1994). The Australian data for expatriate policies are shown in Table 8.7.
<table>
<thead>
<tr>
<th>Policies</th>
<th>1992 (n=24)</th>
<th>1994 (n=21)</th>
<th>t-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes (%)</td>
<td>No (%)</td>
<td>Currently being developed</td>
</tr>
<tr>
<td>Expatriate Selection</td>
<td>5 (20.8)</td>
<td>14 (58.3)</td>
<td>5 (20.8)</td>
</tr>
<tr>
<td>Expatriate Training</td>
<td>16 (69.6)</td>
<td>6 (26.1)</td>
<td>0</td>
</tr>
<tr>
<td>Expatriate Performance Appraisal</td>
<td>16 (66.7)</td>
<td>6 (25)</td>
<td>2 (8.3)</td>
</tr>
<tr>
<td>Expatriate Compensation</td>
<td>19 (79.2)</td>
<td>5 (20.8)</td>
<td>0</td>
</tr>
<tr>
<td>Expatriate Assignment</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Expatriate Career Development</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Repatriation Assignment</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Repatriate Career Development</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

* Significant at p < 0.05 level.
With regard to expatriate management, 73.5% of respondents to the US survey reported formalized policies for expatriate selection, training and compensation, and 8.8% were in the process of developing policies. The lack of formalized expatriate selection policies in the Australian MNEs is a surprising anomaly which would appear to warrant further research. For t-tests to be conducted with the 1992 and 1994 groups, these items were coded (1 = no policies; 2 = policies being developed; 3 = policies in place). The 1992 respondents were significantly more likely to have formal expatriate performance appraisal and compensation policies than were the 1994 respondents. There was also a non-significant trend for the 1992 sample to be more likely than the 1994 sample to have expatriate training programs. These findings are particularly interesting when compared with previous findings for expatriate policies in Australian MNEs (Dowling & Welch, 1988). It may be feasible to speculate that in 1992, respondents were commenting on the presence of general training, performance appraisal and remuneration policies for all employees. The MNEs in the 1994 sample were larger than in 1992, in terms of employee numbers and numbers of countries of business. It may be speculated that the simpler policies of the 1992 sample were no longer appropriate for the more complex organizations of the 1994 sample.

Repeated Measures Sub-Sample of Australian MNEs
A sub-sample of 9 MNEs which provided repeated measures for the 1992 and 1994 surveys was found to be generally representative of the two samples in terms of enterprise characteristics and presence in the EU, as shown in Table 8.8.32

Content analysis of responses provided by these MNEs at the level of individual responses was conducted to investigate changes over time. It was evident that almost all of these MNEs had experienced growth in their international business in the two-year interval between surveys. With regard to number of EU countries of business,

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32 Due to the small sample size, statistical testing of this sub-sample was kept to a minimum.
only one MNE in the sub-sample conducted business in the new EU members (Austria, Finland and Sweden). Considering the other 12 EU countries, 5 of the sub-sample MNEs had increased their countries of business by at least one country. Growth was also seen in terms of their number of products or services, with most showing greater diversification, reflected in an increase of 1 or 2 products or services. The nature of business for this sub-sample reflected the range found across the 1992 and 1994 samples. While Australian business generally may arguably be turning more attention from the EU to the Asia-Pacific region, perhaps these respondents elected to participate as a reflection of sustained and even increasing interest in the EU region.

Table 8.8. Australian MNEs: Characteristics of the Repeated Measures Sub-Sample (n = 9)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total world annual sales ($US million)</td>
<td>250-5,134</td>
<td>1,500</td>
<td>274-8,473</td>
<td>1,800</td>
</tr>
<tr>
<td>EU sales as per cent of world sales</td>
<td>3-24</td>
<td>13</td>
<td>2-28</td>
<td>16</td>
</tr>
<tr>
<td>Years of involvement in international business</td>
<td>4-152</td>
<td>17</td>
<td>6-154</td>
<td>19</td>
</tr>
<tr>
<td>Total number of employees</td>
<td>55-44,000</td>
<td>5,180</td>
<td>102-38,380</td>
<td>6,600</td>
</tr>
<tr>
<td>Number of employees in EU</td>
<td>3-9,000</td>
<td>790</td>
<td>1-8,276</td>
<td>1,077</td>
</tr>
<tr>
<td>Number of countries of business worldwide</td>
<td>2-50</td>
<td>12</td>
<td>3-100</td>
<td>14</td>
</tr>
<tr>
<td>Number of EU countries of business</td>
<td>1-12</td>
<td>3</td>
<td>1-16</td>
<td>4</td>
</tr>
</tbody>
</table>

With regard to the open-ended questions designed specifically to address the research questions for this thesis, members of the repeated measures sub-sample were amongst the most vocal respondents. Data inspection suggested that the responses provided by the sub-sample were representative of the responses to these questions overall. The repeated measures sub-sample was also found to be representative of the 1992 and 1994 samples in terms of endogenous characteristics and SIHRM issues and
policies. The data showed several interesting changes for this sub-sample over the two years between data collection.

With regard to organizational structure, as shown in Table 8.9, four enterprises in 1992 had national subsidiaries with local co-ordination of functions. The remaining organizations were spread across other structural types. By the end of 1994, three of the enterprises with national subsidiary structures had remained in this form, although a trend was evident for organizations to move towards the introduction of regional headquarters. This may reflect some maturity and growth in these enterprises, as regional structures imply some degree of balance between global integration and local responsiveness (Morrison, Ricks, & Roth, 1991).

With regard to the structure of the HR function, data shown in Table 8.9 also indicate some maturity in these enterprises, as they were more likely to have aligned their HR function with their organizational structure by 1994 than in 1992. Further, enterprises in this sub-sample increased the transfer of host country nationals to Australia (the parent country) between the two data collection points; this suggests practices supporting greater devolution and development of host country nationals. These findings may shed some light on the previous finding for the total sample, regarding expatriate policies. Devolution of HR functions, with concomitant greater autonomy at regional or national levels, may be associated with less policy generated by headquarters.

In 1992, 6 enterprises in this sub-sample reported some formalized HR planning process to determine staffing needs. At this first point of data collection, only one enterprise reported a well-developed HR planning process. The remainder reported having no formal HR planning. By 1994, 5 enterprises in this sub-sample reported some formalized HR planning, and 3 reported a well-developed HR planning process. Interestingly, 2 enterprises reported having no formal HR planning.
Table 8.9. Australian MNEs: Comparison of Organizational Structure in the Repeated Measures Sub-Sample

<table>
<thead>
<tr>
<th>Organizational structure</th>
<th>1992</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>National subsidiaries with local co-ordination of functions</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>International divisions</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Regional headquarters</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>World-product or world-matrix structure</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Mixed structure (some combination of those above)</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Is the Human Resources function structured in a similar way to the company's international operations?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>No</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>

The prevalence of expatriate and repatriate policies is shown in Table 8.10. Perhaps the most interesting finding related to the sub-sample was that, when expatriate and repatriate policies were considered, it was evident that "good intentions" for policy development in 1992 were not a strong predictor of policy implementation by 1994. Indeed, for performance appraisal and compensation, regressive movement could be seen, with fewer reports of policies in these areas in 1994 than in 1992.

Overall, these data suggest that change is evident in terms of organizational structure and more 'strategic' HRM issues such as the structure of the HR function. However, there may be a persisting ad-hoc approach to the implementation of SIHRM policies and practices.
Table 8.10. Australian MNEs: Expatriate & Repatriate Policies in the Repeated Measures Sub-Sample

<table>
<thead>
<tr>
<th>Policies</th>
<th>1992 (n=9)</th>
<th>1994 (n=9)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Expatriate Selection</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Expatriate Training</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Expatriate Performance Appraisal</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Expatriate Compensation</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Expatriate Assignment</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Expatriate Career Development</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Repatriation Assignment</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Repatriate Career Development</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Analysis of Research Propositions

The survey responses raise several interesting issues with regard to variables relating to: external issues related to the EU social dimension, organizational structure, and SIHRM issues, functions, policies and practices. These issues have implications for Australian MNEs in the EU and relate directly to the research propositions under investigation in this thesis. The research propositions investigated through the survey responses are P5(a), P5(b), P7(a) to P7(d), P10(a) and P10(b). A summary of the findings with regard to these research propositions is shown in Table 8.11.

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### Table 8.11. Findings Related to Research Propositions Examined in the Surveys (1992 and 1994)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P5(a)</strong> The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P5(b)</strong> The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(a)</strong> The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>P6(b)</strong> The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>P6(c)</strong> The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>P7(a)</strong> MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
<td>n.s.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(b)</strong> MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
<td>n.s.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(c)</strong> MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.</td>
<td>n.s.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(d)</strong> MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
<td>n.s.</td>
<td>✓</td>
</tr>
<tr>
<td>Research Proposition Under Investigation</td>
<td>Extent of Support</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1992</td>
<td>1994</td>
</tr>
<tr>
<td>P8(a) An MNE's headquarter's international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P8(b) MNEs with a predominantly ethnocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which favor parent country employees.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P8(c) MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which are oriented towards host country employees.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P8(d) MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P9(a) The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented HR policies and practices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P10(a) MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>P10(b) MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>


**Key:**
- ✓: Support found for this proposition
- X: No support found for this proposition
- n.s.: Non-significant support found for this proposition.
- Blank cell: This proposition was not appropriate for investigation in these surveys.
Overall, it appeared that SIHRM issues in the EU reflected general concerns for HRM in international business. In addition, several issues pertaining to the characteristics and developments peculiar to the EU host environment emerged from this series of open-ended questions. These responses provide support for P5(a) and P5(b):

**P5(a).** The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.

**P5(b).** The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.

The perception of change in the host environment of the EU has, at the very least, led to some awareness amongst respondents of implications for SIHRM and the need for managerial action which would serve purposes of control and co-ordination. These issues are explored further in the major case study reported in Chapter 9.

With regard to organizational structure (the major endogenous factor investigated through the surveys), as noted earlier, Australian MNEs were more likely to use the less complex types or stages of internationalization than were the US MNEs. In endeavouring to explain this finding, it is recognised that organizational structure may indicate a stage of development or transition for these MNEs. As discussed in Chapter 5, enterprises operating on an international basis may experience a variety of structural forms, either as evolutionary stages or as types of internationalisation (Doz & Prahalad, 1991; Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1993).

In order to investigate the implications of MNE structure for SIHRM, as raised in the research propositions [P7(a) to P7(d)], correlations were calculated between the complexity of organizational structure and extent of formalization of expatriate
management policies. For the 1992 sample, no significant relationship was found, although there was a small positive trend ($r=0.25$, $p>.05$). In 1994, however, a positive correlation was found between complexity of organizational structure and formalization of expatriate management policies (For the 4 policies also included in 1992: $r=0.54$, $p<.01$; for all 8 policies measured in 1994: $r=0.47$, $p<.05$). Hence, it is arguable that there appears to be some progress towards more systematic management of SIHRM in Australian MNEs. This is particularly evident for the more fundamental policy areas covered in both the 1992 and 1994 surveys. The relationship suggested by these findings provide initial support for P7(a) to P7(d):

P7(a): *MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.*

P7(b): *MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.*

P7(c): *MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.*

P7(d): *MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.*

Dowling (1989) investigated the relationship between organizational structure and length of time in international business through statistical analysis, and found a significant positive correlation ($r=.31$, $p<0.05$). In support of Dowling's (1989) finding, both 1992 and 1994 surveys in the present study found significant positive relationships between years of international business and organizational structure (1992: $r=0.427$, $p<0.05$; 1994: $r=0.514$, $p<0.05$). While these correlations do not in themselves measure how effective these MNEs are in managing their organizational structure, they do provide some indication that experience in international business is

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33 Formalization of expatriate management policies is considered to be an appropriate indication of development of a more comprehensive approach to SIHRM.
related to the development of more complex, or 'third generation' organizational forms. These findings provide support for the following research proposition offered by Schuler et al. (1993)\textsuperscript{34}:

P10(b). \textit{MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.}

An important consideration here is that the majority of the Australian MNEs utilised "first-generation" structures, rather than developing across the spectrum of types of international structure. Given recent evidence of restructuring activity amongst Australian, and international, enterprises (for example, Limerick & Cunnington, 1993), and the prevailing ethic of flexibility as a pre-requisite for international competitiveness, structural issues are likely to present challenges for many MNEs.

In 1992, 66.7\% of the Australian MNEs reported the same structure in their HR function as in international operations. In 1994, 76.2\% reported the HR structure to be the same as the international structure. These both show more conformity between HR and international operations than did the US MNEs (55.9\% reported the HR structure mirrored international operations; for 44.1\% it did not).

Where different HR structures were reported in the Australian 1992 survey, descriptions included: a centralized approach of no overseas representatives, all HR operations done through HQ in Australia; a global matrix HR structure; a small headquarters HR group (three people) responsible for recruitment and selection, training and benefits; the HR structure currently developing with Australian coordination; HR activities largely done by line management and guided by groupwide policies if appropriate (for example: "HR in HQ in Australia does expatriates and HR policy. Day-to-day HR is done by subsidiaries with no reporting to HQ").

The 1994 responses included similar (and even identical) comments. Additional
comments showed varying degrees of decentralization, ranging from: HR function structures to respond to local needs & regulations and size of operation; HR function delivered by department heads, with no specialist employed; a dotted line to the head of HR; to HR being a centralised function performed at head office in Australia. Perhaps the most 'decentralised' response was shown in the comment: "HR issues are principally (& best) managed geographically - not from international headquarters. We are strong advocates of decentralisation".

The HR structures found in the surveyed Australian MNEs are very similar to those reported in the US survey. These various structures show varying degrees of centralization-decentralization. By coding responses on this item, Dowling (1989) found a significant positive correlation between the decentralization of HRM structure and length of time in international operations ($r = 0.31, p < 0.05$). This finding by Dowling (1989) led Schuler et al. (1993) to offer the following research proposition: P10(a).

MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.

Replicating Dowling's (1989) approach in the present study, the 1992 survey found no significant relationship between years of international business and decentralization of the HR function ($r = -.116, \text{n.s.}$). The 1994 survey did find a significant relationship ($r = -.84, p<0.05$), although in the opposite direction to Dowling's (1989) results. The 1994 finding suggests a negative relationship between HR decentralization and length of time in international business, although the small sample size precludes any strong conclusions from being drawn here. The failure to replicate Dowling's (1989) finding may reflect less variation in the Australian MNEs' structure of the HR function. Data inspection revealed even less variation in HR structure than in organizational structure for these MNEs. Hence, even where a more complex, or 'third generation' organizational structure was reported, these MNEs are likely to continue to utilise a simple, 'first generation' structure in their HR function. This suggests a lack of fit (Kobrin, 1992). Whether this represents a flaw which may have negative implication for effectiveness, or a necessary approach for the MNE to
develop other "fits", for example with the environment, required further investigation (Milliman et al., 1991; Purcell & Ahlstrand, 1994). This issue is taken up in the major case study reported in Chapter 9.

Summary

The surveys of Australian MNEs in the EU have identified several issues to be pursued in further case study research. With regard to issues relating to the EU as host environment, it would appear that Australian managers foresee a number of concerns at both strategic and operational levels. The growing awareness and concern regarding the EU social dimension supports Cascio's (1992) finding and raises some interesting issues for exploration in the major case study. It is clear is that, for Australian MNEs operating in the EU, the external environment is a variable for consideration; whether organizations should gear their IHRM strategies and practices specifically for the EU remains debatable.

With regard to general international business, issues identified for further consideration include: centralization-decentralization in organizational and HRM structure; development of formalized SIHRM policies and practices; and the purposes of staff transfers. It appears that Australian companies are developing their knowledge and application of HRM, and international aspects of this function are achieving an increasingly high profile. Notwithstanding concerns regarding comparability across the samples (Begin, 1992), the apparent 'lag' between the US MNEs and Australian MNEs with regard to practices, despite comparability in terms of length of international business, is thought-provoking. Overall, the issues focused upon in this survey appear to raise several questions for further research in SIHRM.
CHAPTER 9.
CASE STUDY: PAPERCO/BOXCO IN THE EUROPEAN UNION

Objectives of this Chapter

The main objective of this chapter is to provide an analysis of Paperco\textsuperscript{35}, an Australian MNE. More specifically, the case analysis focuses on Boxco, a key business of Paperco with significant operations in the EU. An overview of the organization's current characteristics and historical background is provided. The focus of this case analysis is on issues related to SIHRM in Paperco/Boxco's operations in the EU. These issues are analysed with regard to the research questions and propositions posed for this thesis.

Case Selection and Data Collection

Paperco was chosen as a case study for several reasons, as outlined in Chapter 6. First, following Dyer's (1984) advice, Paperco was identified as an enterprise experiencing major contextual change, with enough internal activity for SIHRM to potentially be identifiable. Second, Paperco has fully Australian ownership. Paperco has several key businesses, including Boxco. Boxco is the only key business with operations in more than one Member State of the EU, including the United Kingdom. Third, Boxco employs expatriates in the EU, albeit in small numbers. Fourth, there was support for the researcher to gain access to the organization for this investigation.

\footnote{35 The names of the company and key figures have been changed to provide confidentiality.}
Additional organizational characteristics enhanced the suitability of Paperco as a case study organization. First, operations in Australia are well established, and there was high probability of the organization's continued existence for the duration of the present study. Second, Paperco's pattern of international expansion appears to be representative of large Australian manufacturing enterprises. This is reflected in survey sample responses reported in Chapter 8. Third, characteristics to Boxco provided further enhancement of the organization's suitability for analysis in this thesis. For example, Boxco's types of business in the EU, including wholly-owned subsidiaries, and presence in three EU countries are representative of the survey sample averages. Finally, Boxco's employee numbers are larger than the survey sample averages, a desirable feature to facilitate the exploratory study of multiple issues related to SIHRM.

Data were collected over a period of three years, with initial contact in early 1993 and final contact in early 1996. The details of those interviewed are shown in Table 9.1.

<table>
<thead>
<tr>
<th>Corporate location</th>
<th>Person Position (at the time of interview)</th>
<th>Employment location of interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boxco</td>
<td>Managing Director</td>
<td>Australia</td>
</tr>
<tr>
<td>Boxco</td>
<td>Managing Director (Europe): (Mr E.)</td>
<td>England</td>
</tr>
<tr>
<td>Boxco</td>
<td>Group General Manager (Asia)</td>
<td>Australia</td>
</tr>
<tr>
<td>Boxco</td>
<td>Group Human Resources Manager</td>
<td>Australia</td>
</tr>
<tr>
<td>Boxco</td>
<td>Australian expatriate manager</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Boxco</td>
<td>Australian expatriate technical specialist</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Boxco</td>
<td>British expatriate manager</td>
<td>Germany</td>
</tr>
<tr>
<td>Boxco</td>
<td>German national manager</td>
<td>Germany</td>
</tr>
<tr>
<td>Boxco</td>
<td>Business analyst</td>
<td>Australia</td>
</tr>
<tr>
<td>Paperco</td>
<td>Manager, Corporate Affairs</td>
<td>Australia</td>
</tr>
</tbody>
</table>

As explained in Chapter 6, multiple data collection methods were employed in the case study approach: interviews, analysis of company documentation (such as annual...
reports, in-house newsletters and journals, official company histories; and procedures manuals), and analysis of other published sources (such as journal articles). Where possible, work site tours were conducted. Data were collected on a number of variables relating to: external issues, particularly issues related to the EU social dimension, endogenous organizational factors, and strategic international human resource management.

Overview and Historical Background for Paperco and Boxco

Boxco is a key business of Paperco Limited. There are around 95,000 shareholders in Paperco Ltd., most domiciled in Australia. More than 13,000 Paperco employees in Australia, New Zealand and the United Kingdom with at least one year's service own company shares. Paperco has approximately 25,000 employees at over 300 locations in 21 countries (Gilchrist, 1996a; Paperco annual report, 1995; Paperco documents). In Australia, Paperco holds 50 per cent of the market in their product. At June 1994, Paperco's share market value was approximately $A6 billion, placing Paperco among the top ten listed companies in Australia (Paperco annual report, 1994). In 1994-95, the Paperco group recorded annual sales of $US 5,079 million. During that year, capital expenditure and worldwide acquisitions totalled $US 601 million; borrowings of almost $US 254 million helped to find this expansion (Paperco annual report, 1995).

Paperco Organizational Strategy

Overall, Paperco is characterized by a concentrated focus on high quality and service throughout their operations, combined with efforts to reduce costs. The organization is striving to achieve best practice in world markets. Paperco's strategic objectives are outlined in Table 9.2.
Table 9.2: Paperco's Strategic Objectives

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paperco's over-riding objective is to achieve continually improving return on funds invested in the company and increasing benefits for all our shareholders. In pursuing this goal, the company aims to establish at all levels ethical business relationships with employees, shareholders, customers, suppliers and the community at large. Paperco aims to:</td>
<td>• Optimise the return on shareholders' funds by focusing on core activities, acquiring complementary businesses and continuing a policy of sound financial management and the efficient use of assets; • Provide products and services of the highest quality and lowest cost to satisfy our customers' needs; • Maintain our position as the leading packaging company in Australia and New Zealand and one of the top 10 in the world and hold or improve our market shares in all our other main areas of activity; • Aim for the highest standards of protection for the natural environment and human health; • Maintain our significant commitment to mutually-beneficial employee relations through safe working conditions, training programs and recognition of productivity and potential; • Continue our major investment in research and development to ensure we maintain a competitive edge; • Support worthwhile community activities and be aware of attitudes on important social and economic issues.</td>
</tr>
</tbody>
</table>

(Source: Paperco annual report, 1995).

Paperco Organizational Structure

The organizational structure of Paperco is shown in Figure 9.1. The Paperco corporate management Group is located in Melbourne Australia. In addition to the Managing Director and Deputy Managing Director, the corporate management group comprises: company secretary; group controller; and directors or general managers of finance and administration, corporate affairs, insurance and risk, legal, treasury, and accounting functions. There is no direct representation of the human resources function at this level. Paperco operations are divided into three divisions: packaging, paper, and investments.

The **packaging** division includes Packetco and Boxco. Through Packetco and Boxco, Paperco conducts the largest packaging business in Australia and New Zealand.
Paperco is now among the top 10 packaging companies in the world based on sales, as sales for the packaging division reached $US 3,220 million in 1994-95 (*Paperco annual report*, 1995). Packetco is currently organised on a product divisional basis, but is undergoing restructure towards geographic regions. Boxco is organized on a geographic divisional basis, split into: Australia, New Zealand, Asia, Europe, and the USA. (Boxco provides the focus for this case study).

The *paper* division operates the largest integrated forestry, pulp and paper making business in the western Pacific region, with expansion occurring in the USA. This business is organized on a geographic regional basis. The paper merchant holdings include a substantial fine paper business and envelope manufacturing interests in Australia and New Zealand and the trading business has a network of trading offices in Australia, New Zealand and throughout the Asia-Pacific region.

Paperco *investments* division includes a 50% interest in the market leader in tissue and personal care products in Australia and New Zealand. Paperco also holds a 46% shareholding in a fine papers merchant and stationery manufacturer. This business operates in Australia, New Zealand and the USA.

Figure 9.1. Paperco Organization Chart
Paperco Organizational History

The history of Paperco can be traced to 1844, when a 22 year old stone mason from Yorkshire, England arrived in Victoria, Australia. He worked on a number of ventures in the construction industry, operated a flour mill, then in May 1868 established Victoria's first paper mill in South Melbourne. The present corporate headquarters are located next to the site of the original mill (an international hotel is now on the original site). After the founder's death in 1877, his son took over the business. In 1882 the business was sold. The business grew over the next two decades and the Paper Mills Co. Ltd. was established on November 13, 1895. In 1920, a new company was formed by amalgamation. Further amalgamation led to the incorporation of Paper Makers Ltd. on November 27, 1926 (Sinclair, 1991).

Until the late 1970s, Paper Makers operated almost exclusively as a forestry, pulp and paper company. In the 1970s, the company changed course quite dramatically and diversified through acquisitions and partnerships. The business base was broadened considerably, with large-scale entry into packaging, transport and computer services, retailing, importing and exporting and increased technological innovation. In 1984, the name was changed to reflect common usage, but it was still deemed necessary to make a more obvious change to signify new developments. On May 1 1986, Paperco Ltd. became the new name to reflect the new corporate identity.

The history of senior management in the organization provides a strong explanatory factor for the relatively late entry of Paperco to international business, followed by significant expansion through the 1980s and 1990s. It also provides some insights to the contextual changes taking place in Australia throughout this century. In the first century of operations, senior management focused attention on building a strong presence in Australia. As Sinclair (1991: x) has described:

*the company's leaders were highly individualistic, not conforming to any stereotype of business managers, and, in the early years, family influences were strong, powerful and often possessive. Sons followed fathers and one family dynasty lasted for close to 80 years.*
A major change in management style was introduced in 1977, with a new, 38-year-old Managing Director of the company, who was the first in that post to have had experience as a mill manager. He had joined Paper Makers in 1960, becoming chief accountant in 1969, finance manager in 1972, mill manager in 1973, a divisional manager and deputy managing director in 1975. He is characterized by a quiet and non-autocratic managerial style (in contrast to his predecessors). The Managing Director is regarded amongst senior managers as a very strong 'strategic thinker'. As one senior manager bluntly described the Managing Director:

*If he sniffs and grunts and scratches, it's because he's got something in the back of his mind, that the timing isn't right, or the conditions aren't right. When he moves, it is very decisive and he never backs off, unless the circumstances change.*

The strategic emphasis of the Managing Director's management approach has been that the company should seek acquisitions of a complementary nature with its current business, targeting companies with growth potential, without high capital intensity, and into which the company's expertise can be transferred. As the company's core business was slowing, packaging was identified as an area of major prospects. This required major acquisitions and entry into international markets. The Managing Director pursued the potential for international expansion across New Zealand, Asia, Europe and North America.

Paperco was restructured by decentralizing the management structure into more than 50 profit centres. Each has 'authority with responsibility' and much of the managerial decision making is delegated. Direct authority has been retained only in specified financial areas. Headquarters staff numbers have been significantly reduced over the past two decades. The management structure is now quite flat, with fewer than 30 staff in the Melbourne Australia corporate headquarters of Paperco. This has set the pattern for Paperco management style in the 1980s and 1990s.

Paperco headquarters' orientation towards operating units may be summarized as: "[The Managing Director] runs a very loose ship. We are, in fact, a consolidation of"
a lot of different companies. He never tries to make one look like the other." As indicated by the organizational structure, Paperco headquarters has a regiocentric orientation towards units (Chakravarthy & Perlmutter, 1985), in that each regional operation operates autonomously in several respects and local responsiveness to their region is emphasized. One limitation of this approach is that managers from each regional or national operation appear to have minimal acquaintance with counterparts from other regions, despite the introduction of several 'global' management development programs.

At the time of writing, in early 1996, several significant changes are taking place at senior levels in Paperco. Succession planning for the most senior positions has become an issue of major concern at Paperco. The senior management team is comprised largely of men employed by Paperco for at least two decades. The Managing Director has announced his plans to retire on June 30, 1996. On July 1, 1996, he will be succeeded by the Deputy Managing Director, who was previously Managing Director of the Paper group. The Managing Director-elect joined the company in 1957 as a trainee chemist. He has held many positions in Paperco and was appointed to the Board in July 1993.

The retirement plans of the Managing Director, and the imminent retirement of several other senior managers, have led to a major re-shuffle of senior management positions. The long-term tenure amongst senior management has provided valuable stability for the organization, yet the strong 'ownership' of each position presents considerable difficulty with regard to identification of successors to the most senior positions. It is evident that there is a perceived paucity of second-level managers "ready" to progress to first rank. To some extent, the reorganization of senior responsibilities reflects hesitation with regard to allowing new entrants to the senior management group. For example, the Managing Director of Boxco (Europe), Mr E. 36, has adopted combined

36 The Managing Director of Boxco (Europe) was a critical informant for this case study, due to his personal involvement in Boxco's expansion into the EU. He is referred to throughout this chapter under the pseudonym of Mr E.
roles as Managing Director of the Paper group and Managing Director of Boxco. Since 1988, he had previously held the position of Boxco Managing Director (Europe). While his joint responsibility has been planned to facilitate the integration of the paper division and the packaging division in the European region, it highlights the apparent lack of successors.

It is recognized that the task of replacing a substantial number of key players within a short time span is extremely challenging. This may provide some rejuvenation of the organisation, but also bring a period of instability. This suggests some deficiency in the extent of human resource planning conducted within the organization and perhaps some lack of fit between organizational strategy and HRM issues related to planning (Huselid, 1993; Lengnick-Hall & Lengnick-Hall, 1988). The organization in 1996 is entering a new management phase which is likely to present significant challenges.

**Paperco International Expansion**

Paperco's first major offshore plans related to a merger planned with a New Zealand company, although this was eventually vetoed by the New Zealand government. International expansion actually developed in South East Asia. As a result of an agreement signed in 1973, a company was established in Asia as a joint company between Paper Makers and a New Zealand-based company. Two joint venture plants in Singapore serviced the packaging requirements of the burgeoning local computer and electronics industries. A third plant in Hong Kong, operating as a joint venture, began manufacturing in 1987. In 1989, another fibre box plant was acquired by buying a Malaysian company operating in Kuala Lumpur. Around the same time, Paperco's export activities were revitalised with pulp exports to Thailand, Korea, Indonesia, Taiwan and India. Acquisitions were also made in North America. All of Paperco's main divisions were active in acquisitions and in divestments. While the developments were not without some problems, overall the company was fulfilling its advertised image: a "sleek jet ... efficient, lean and forward looking" (Sinclair, 1991, p. 243). Despite this progression, Paperco received negative publicity in the 1980s in Australia, as the organization was criticized for lagging behind other major
Australian organizations in terms of international development.

All Paperco businesses have continued to increase their international activities, particularly in the past six or seven years. For example, in December 1994, Packetco purchased a Swiss-based packaging business for $US 97 million. The Swiss company has annual sales of about $US 231 million and operates nine manufacturing facilities in Switzerland, France, United Kingdom, Poland, Spain, Germany and Portugal (Paperco half year report, December 31, 1994). This was Paperco's largest single investment in that financial year and brought four new countries into Paperco's operations. As shown in Table 9.3, Paperco currently has around 25,000 employees worldwide.

Table 9.3. Paperco Human Resources

<table>
<thead>
<tr>
<th>Location</th>
<th>Approximate Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>14,500</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1,926</td>
</tr>
<tr>
<td>United States</td>
<td>1,762</td>
</tr>
<tr>
<td>Canada</td>
<td>1,154</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>746</td>
</tr>
<tr>
<td>France</td>
<td>240</td>
</tr>
<tr>
<td>Germany</td>
<td>886</td>
</tr>
<tr>
<td>Other European countries</td>
<td>2,500</td>
</tr>
<tr>
<td>Singapore</td>
<td>337</td>
</tr>
<tr>
<td>Malaysia</td>
<td>325</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>204</td>
</tr>
<tr>
<td>China</td>
<td>44</td>
</tr>
<tr>
<td>Other Asian countries</td>
<td>50</td>
</tr>
<tr>
<td>TOTAL</td>
<td>24,674</td>
</tr>
</tbody>
</table>

(Source: Paperco documents)
The international entry mode mandated by the Managing Director for Paperco is through greenfield sites or through majority equity holdings with contractual arrangements for full ownership by Paperco within three to five years. Each deal for a joint venture is negotiated such that the full price for eventual ownership by Paperco is formulated in the initial price. This reduces the likelihood of disagreements with regard to the size of the second payment, although there may be 'discussion' about the timing. The corporate entry mode policy provides for maximum control by the organization, with maximum protection from risk such as host country government action (Miller, 1993; Sundaram & Black, 1992). This mandate for international expansion is reflected in the history of Paperco's international acquisitions, as shown in Table 9.4 (Boxco's investments are highlighted).

Table 9.4 Paperco International Acquisitions (Boxco shown in bold)

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>Through New Zealand subsidiary, purchased interests in several New Zealand plants</td>
</tr>
<tr>
<td>1989</td>
<td>Acquisition of a leading Canadian-based plastics manufacturer with 16 plants and distribution centres in Canada.</td>
</tr>
<tr>
<td>1989</td>
<td>Acquisition of 48% of a Californian-based packaging, manufacturing and distribution company. Shareholding was increased to 100% in 1990.</td>
</tr>
<tr>
<td>1990</td>
<td>Purchase of 49% interest in a French-based corrugated box manufacturer.</td>
</tr>
<tr>
<td>1991</td>
<td>Purchase of 49% shareholding in a corrugated box manufacturer in England. The remaining 51% was acquired in June 1994.</td>
</tr>
<tr>
<td>1991</td>
<td>Purchase of 100% of a New Zealand company.</td>
</tr>
<tr>
<td>1991</td>
<td>Purchase of the remaining 50% of Singapore joint venture. This owns 50% of two corrugated box plants in Singapore and one in Malaysia, and a 67% interest in a box plant in Hong Kong.</td>
</tr>
<tr>
<td>1991/92</td>
<td>An increase in Paperco's interest in French company from 49% to 75%. The interest further increased to 100% in 1993.</td>
</tr>
<tr>
<td>1991/92</td>
<td>An increase to 100% ownership of company in Singapore and company in Malaysia.</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
</tr>
<tr>
<td>1993</td>
<td>Plans announced for a joint venture with the Chinese Government to make packaging products in Northern China. The joint venture invested $A14 million in a new plant which was fully operational by March 1994.</td>
</tr>
<tr>
<td>July '93 (Boxco)</td>
<td>Acquisition of 50% of company in Germany for $US 9.5 million. The remaining 50% was effective in July 1995.</td>
</tr>
<tr>
<td>March '94</td>
<td>Commencement of a flexible packaging plant in Beijing.</td>
</tr>
<tr>
<td>Sep. '94 (Boxco)</td>
<td>Acquisition of 55% of one of Indonesia's leading corrugated box businesses.</td>
</tr>
<tr>
<td>Nov. '94</td>
<td>Purchase of a 64% interest in a U.S. flexible packaging manufacturer.</td>
</tr>
<tr>
<td>Jan. '95</td>
<td>Acquisition of a Swiss folding carton packaging business with operations in Switzerland, United Kingdom, France, Germany, Spain, Portugal and Poland.</td>
</tr>
<tr>
<td>Feb. '95</td>
<td>Announcement that Papero will have an 83% interest in a $US 12.3 million folding carton joint venture with the Chinese Government in Beijing. By the end of 1995, two plants have been built.</td>
</tr>
<tr>
<td>June '95</td>
<td>Joint venture in Thailand in a rigid plastic packaging business</td>
</tr>
<tr>
<td>July '95 (Boxco)</td>
<td>Plans announced for a new $US 42 million corrugated sheet feeding plant at Preston, United Kingdom.</td>
</tr>
<tr>
<td>1995 (Boxco)</td>
<td>French operations increased shareholding from 38% to 95% in a sheet converting business in northern France.</td>
</tr>
<tr>
<td>1995 (Boxco)</td>
<td>The remaining 20% shareholdings acquired in companies operating Boxco's box plants in Hong Kong and China.</td>
</tr>
</tbody>
</table>

(Source: Australian Stock Exchange; Company interviews; Paperco annual report, 1994, 1995; Paperco company documents).

**Overview of Boxco: Enterprise Characteristics**

Boxco manages Paperco's world-wide corrugated fibre box manufacturing and packaging distribution businesses. In 1996, Boxco has 70 manufacturing sites and distribution centres in 11 countries, and has annual production capacity of 1.4 million metric tonnes. Boxco sells corrugated packaging for fresh and processed food, beverages, household products and a range of industrial uses, as well as point-of-sale display packaging and packaging machinery systems. The USA subsidiary also operates a substantial distribution business, with an emphasis on packaging and related products.
Approximately 70 per cent of Boxco's production capacity is located outside Australia. Boxco operations are located in Australia, New Zealand, USA, UK, France, Germany, Singapore, Hong Kong, Malaysia, Indonesia, and the People's Republic of China (Company documents; Paperco annual report, 1994, 1995). Boxco has 8,697 employees worldwide. In the EU, Boxco has 1,800 employees (746 in the United Kingdom, 240 in France, and 886 in Germany). Boxco currently has 19 manufacturing sites in the EU. Boxco's presence in the EU has shown significant growth throughout the 1990s. As a point of comparison, in 1992 there were only 790 Boxco employees in the EU.

Worldwide sales of Boxco rose 18 percent, from $US 1,373 million to $US 1,618 million during the 1994-95 financial year. About 70 per cent of these sales were outside Australia, with 31 per cent in the USA, 24 per cent in the EU, 9 per cent in New Zealand, and 5 per cent in Asia. In the 1993-94 financial year, profit before interest and tax rose 27.7 per cent from $US 75.5 million to $US 96.5 million. This slowed somewhat in the 1994-95 year, with profit before interest and tax rising only 13 percent from $US 109 million to $US 123 million (Paperco annual report, 1994, 1995). Economic conditions in Continental Europe (French and German operations) were difficult but, as with operations in Australia, New Zealand, USA and United Kingdom, there was evidence of improvement. In 1994-95, Boxco's output of corrugated boxes rose to about 1.2 million tonnes. In 1994-95 the group reported annual production capacity of 1.5 million tonnes in 10 countries. The major plants, located in Australia, New Zealand, USA, Asia and Europe have received international standard quality accreditation (Paperco annual report, 1995). Increases in total sales result from a combination of volume growth and increasing box prices, particularly in markets outside Australia. As shown in Table 9.5, Boxco's European operations have a production capacity of almost the same amount as the Australian and New Zealand operations, thus representing one third of total production capacity.

In Boxco's Asian operations, sales rose 15.1% from $US 56.2 million to $US 84 million in the 1994-95 financial year (Paperco annual report, 1995). The operations in Singapore and Hong Kong performed strongly and the three Malaysian plants
continued to improve. As a senior manager summarized: "Competent management teams are now in place at all locations". Investment in the Asian region continues to grow, and a new box plant has been constructed at Dongguan in southern China, an $US 14 million, 35,000 tonne pa/capacity plant. Commercial production commenced at this plant, a wholly owned Paperco enterprise, in January 1995. In September 1994, Paperco purchased a 55% stake in a fibre box business in Indonesia. This represents Boxco-Asia's first venture in Indonesia. The plant, located in Jakarta, operates Indonesia's largest modern corrugator and has an ultimate capacity to produce 50,000 tonnes a year of corrugated fibre boxes for the fast-growing but competitive Indonesian market. This market is served by more than 50 box companies in the Jakarta area alone (Paperco newsletter, June 1995). Boxco is continuing to review investment opportunities in other Asian countries, including South Korea.

<table>
<thead>
<tr>
<th>Region</th>
<th>1994-95 Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian &amp; New Zealand</td>
<td>580,000</td>
</tr>
<tr>
<td>European Union</td>
<td>500,000</td>
</tr>
<tr>
<td>North America</td>
<td>250,000</td>
</tr>
<tr>
<td>Asia</td>
<td>170,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,500,000</td>
</tr>
</tbody>
</table>

(Source: Paperco annual report, 1995)

Boxco Organizational Strategy

Boxco organizational strategy is strongly aligned with the overall organizational strategy of Paperco, characterized by a concentrated focus on high quality and service throughout their operations, combined with efforts to reduce costs. Strategic objectives for Boxco within Australia focus on efforts to improve returns on funds employed in Australia through cost reductions and improved quality and service. The organization also seeks to maintain its strong performance in the New Zealand and US businesses. In Europe, Boxco strategic objectives relate to the continued development of businesses in the United Kingdom and efforts to achieve improved
results in France and Germany. Also, Boxco has entered several of the high growth potential South-East Asian markets and seeks to continue its strong development in this region.

In several respects, there is evidence that the relationship, or 'fit' between HR strategy and organizational strategy is not entirely consistent (Lengnick-Hall & Lengnick-Hall, 1988). Some aspects of HR strategy exhibit reciprocity with organizational strategy, particularly evident in the start-up phase of new ventures in greenfield sites. In contrast, other areas show evidence of top-down relationships only. This is particularly evident with respect to succession planning, not only within Boxco, but across Paperco.

The conceptualization of strategy as the "pattern in a stream of decisions" (Mintzberg 1978: 935) is evidenced in several reported events at Boxco. Following Mintzberg and Waters' (1985) argument that such patterns may be both emergent and deliberate, one manager at Boxco described the pattern:

*We do an enormous amount of planning and strategy development. Then an opportunity comes up, so you adapt all your plans and say this would have fitted if we'd known about it. Your strategic planning is a discipline rather than a strait-jacket.*

**Boxco Organizational Structure**

The organizational structure of Boxco is shown in Figure 9.2 (highlighting the European operations). As with all Paperco businesses, Boxco operates quite independently of Paperco corporate headquarters. There are, however, some Paperco Board members on each of the businesses' boards. For example, the Paperco Managing Director acts as Chairman of each board. The Boxco Board of Directors also includes the Paperco Deputy Managing Director and the Paperco Executive

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It should be noted that Boxco has no detailed organizational charts. This depiction has been constructed from interviews and various company documents.
Director Finance and Administration.

As shown in Figure 9.2, Boxco operations are organized on a geographic divisional basis. This has resulted from the narrow product range and a requirement to be responsive to customers in each region. Interestingly, while other Paperco businesses with greater product variety are currently organized on a product divisional basis, they are moving towards geographic regions. While Boxco Head Office is located in Melbourne Australia, regional business headquarters are located in Europe, U.S.A. and New Zealand. Boxco Asia is the only region managed directly from Australia, by staff located at Boxco head office, namely the Group General Manager, Boxco Asia, two senior finance managers, and one accountant (who is multilingual in Asian languages). In each of the Asian operations, all senior managers are not Australian, with one exception in Indonesia.

![Boxco Corporate Management Diagram](Source: Paperco annual report, Company interviews)

**Boxco Operations in the European Union**

The establishment of Boxco's operations in the EU was highly influenced by the involvement of Mr E, an English manager with a great deal of experience in the European corrugated box industry. It is well recognized that Mr E. has a
comprehensive knowledge of the United Kingdom and European markets, as he had been involved in every high technology operation in the industry in Europe. Through a mutual personal contact, Mr E. was invited to visit Australia in April 1987 to meet with the Managing Director of Paperco. Mr E. was employed as the project manager with a brief to find suitable target companies for Boxco in Europe, to acquire them or form partnerships, to enable Boxco to become a significant force in Europe. Mr E. was to become Managing Director of Boxco - Europe. Environmental analyses included scenario development and testing, cross-listings of possible options, and thorough feasibility studies. In the first six months of 1988, many possibilities were considered, through desk research, discussion and personal contact. It was concluded that it would be preferable to enter the EU via the United Kingdom first, because of the commonalities such as law and accounting procedures. A variety of advisory teams were sourced from consulting services established in Australia and in the United Kingdom.

Paperco senior management did not wish to publicize their intention to enter the EU. The market entry strategy was in fact quite secretive. No notices were placed in newspapers to seek interested parties for acquisition or merger. The rationale for this approach was that any companies which might be potential acquisitions would increase in price if it were known that there was an interested buyer. In 1988 the industry was still in a boom period. In at least one instance, a United Kingdom company was sold for approximately 22 times earnings. Acquisition at inflated prices, however, creates substantial difficulty in servicing the debt and making adequate returns.

To summarize, Boxco had substantial funds and the ambition to enter the EU market, but there appeared to be nothing worth purchasing. In mid-1988, Mr E. prepared a report which concluded that no suitable acquisitions could be identified and argued the case for the construction of a greenfield plant. He argued that all existing plants (potential acquisitions) were either poorly located, held outdated assets, had difficult industrial relations histories, or an inappropriate product mix. He recommended that a greenfield site could create the "perfect plant, no goodwill, no baggage, the
management we wanted, the people we wanted, pick out the sector of the market we wanted, and last on the list, we could pick the equipment we wanted".

In the late 1980s, the United Kingdom market represented approximately 2 million tonnes of corrugated box production. (As a comparison, the Australian market at the time was approximately 500,000 tonnes). Overall, the European industry had been managed as a "cash cow", with very few companies making substantial reinvestment in their business over previous years. Most companies had largely limited purchases to replacement parts. The majority of factories in the United Kingdom were multi-purpose, with high-volume production, short-run production, and a wide range of activities and products.

Mr E. recommended the construction of a plant utilizing in-line work. The manufacture of boxes using in-line processes involves the product running through a corrugator, through a converting machine and out at one pass. No manual work is required. In the late 1980s, approximately 70 per cent of Boxco’s competitors in the United Kingdom used in-line processes. Over the years, as these companies had failed to sharpen their production costs, most were endeavouring to move away from in-line work. Paperco analysed the investment patterns of all the major companies in the United Kingdom over the previous 5 year period. The common trend amongst these competitors was to increase the proportion of value-added work. Their intention appeared to be to provide some solution to their problems: instead of resolving basic cost problems, they would attempt to add value.

March: The First United Kingdom Investment
Boxco's expansion into the EU began in 1988 with the decision to build a greenfield corrugated box plant at a site near the village of March (north of Cambridge) in Cambridgeshire, England. During this expansion period, Paperco raised funds internationally on five separate occasions. For example, in July 1988 Paperco issued $US 79 million undated, subordinated, convertible bonds in London to overseas investors at a coupon rate of 9 per cent. These bonds were the first of their kind.
issued in European markets and are convertible to ordinary shares in Paperco at the option of the shareholder any time up to June 1998. The issue was named the 'best equity-linked deal of the year' (International Financing Review, cited in Sinclair, 1991).

Boxco built a highly automated factory, quite a courageous move, given the contemporaneous industry changes. The factory cost about 25 million sterling/ $US 36 million. The factory was built in 11 months, from the day of Board approval, August 4 1988, to the date production began, July 25 1989. It was on a 15 acre site near the town of March, in Cambridgeshire. The location was chosen based on prior knowledge and with substantial planning -- particularly in regard to planned locations for the second and third plants. The location planning method involved examination of the centres of population in the United Kingdom and assessments of how best to access the road network and service the population centres, in order to determine minimum costs. Once the macro-economic elements were established, Paperco management moved to consider micro-economic elements. Mr E. strongly advised the location of factories in self-contained communities, not the outskirts of large cities. A company establishing a factory in a village or small town with an employment problem, can develop strong advantages: You can become to a degree paternalistic, but you then get a character in the place very quickly. Whereas if you're on the outskirts of Birmingham or London, you've got workers wandering in and out all the time.

The production output for the March factory is focused on agricultural products, including frozen foods, potato packing, potatoes for the fast food industry, boxes for cut flowers, and vegetable and fruit boxes. Boxco has now developed a substantial business presence in the United Kingdom. This factory, and subsequent manufacturing sites in the United Kingdom have "state-of-the-art" technology. Throughout Europe, Boxco uses the same type of corrugating machine, designed in collaboration with Mr E., Boxco engineers, and the Japanese organization which manufactures and supplies the machinery. These corrugating machines, in combination with other advanced technology used by Boxco provides the organization with a
technological advantage over all other competitors in the EU market.

*Leicester: The Second United Kingdom Investment*

In 1991, Boxco acquired 49 per cent of another corrugated box manufacturer in Leicester, England, which had a specialised operation with quite up-to-date technology. The Leicester company (hereafter referred to as 'Leicester') had commenced operations shortly before the March factory. Leicester was operated by three men, all personal friends and previous work colleagues of Mr E. Indeed, Mr E. had been heavily involved in the establishment of Leicester. The company managers had a Swiss partner who decided to sell his share. The three managers felt strongly that they did not want to be suffocated by corporate management, but they had exhausted themselves in terms of capital and did not have the capital to buy the other half of the company. Boxco, upon purchasing the 49 per cent ownership, agreed to a policy of minimal involvement. Leicester continues to operate under its own name.

Leicester has consistently exceeded its profit forecasts. By the second year, business had grown to the extent that a second corrugating machine was required. Boxco funded a new corrugator and reformulated their investment agreement. This new corrugator was designed through collaboration between Mr E., the Leicester owners, and the manufacturer/supplier. In fact, they created a new type of corrugator with a limited top speed, to provide continuous running. The Leicester plant now has the capability to adjust production batches to optimize the use of the two machines in operation. Orders have increased as end-use customers have realised the superiority of Leicester's product and delivery service.

A year after this investment, it was apparent that several conditions had altered since the original agreement for Boxco's eventual 100 per cent ownership of Leicester. The value of the company was estimated and a deal was negotiated such that the remaining 51% was acquired by Boxco in June 1994. The three owners accepted three year employment contracts with Boxco. All three have converted their contracts into permanent positions with Boxco. They retain the management of Leicester, combined
with a wider role in Boxco.

*Mold: The Third United Kingdom Investment*

In 1993, Boxco built another corrugating factory, this time near the town of Mold, in north Wales. It was intended to be a replication of the first factory at March. The Mold plant resulted from three years of planning, so is perhaps a "more perfect" factory. The Mold plant was completed on time and on budget. Production started towards the end of 1993. The order analysis for the Mold plant is focused on light industry.

*Boxco in France*

In 1990, Boxco senior managers in the United Kingdom were approached by a French businessman who had acquired a very old factory in France. He intended to rebuild this factory and had purchased corrugating machinery from the same organization, which supplies Boxco's machinery. He came to England to study Boxco's approach. Boxco formed a joint venture with this Frenchman, as "the chemistry was right". Boxco became a 49 per cent partner in the French company and agreed to provide technical and engineering support, and financial support in terms of management systems to help the company become established.

The operations of this joint venture in France encountered substantial problems. From the perspective of Boxco management, it is considered that the Frenchman misjudged his own ability to run a corporate organisation, particularly the skills required for line management. One admission by Boxco is that they took perhaps too long to realise the problems with the French plant; the financial costs were considerable. After a period of two years, Boxco changed its financial contribution in the form of considerable loans to equity. The Frenchman was reduced to a 25 per cent ownership position, by an increase in Paperco's interest in the French company to 75 per cent. Boxco replaced him in the factory with their own manager, an Englishman. Early in this process, cross-cultural problems emerged. The English manager was a tough,
persistent, confident man. He would not deviate from his plan for the plant. His management approach encountered considerable resistance from the French workforce. Boxco also put in place a computer management system used in the United Kingdom plants. Within twelve months, the French plant returned a profit for the first time. In 1993, Boxco acquired the final 25% of shares in this company. Profits have continued to grow and this operation is viewed as a strong contributor to Boxco's European operations. In 1995-96, the French national strike caused some performance difficulties, as the operation was caught in the macro-level difficulties in the country.

With the exception of an Australian expatriate in the position of financial controller, the French plant is now managed by French nationals who have been promoted from within the plant. The French plant is located almost at the centre of the French perfumery packaging industry, where firms such as L'Oreal package their products. Hence, the order analysis for the French plant is dominated by perfumery and aerosol packaging. Recently, new acquisitions have been made in France, in smaller factories without their own corrugating machines. These acquisitions allow Boxco to complement the product of the initial plant.

**Boxco in Germany**

In July 1993, Boxco acquired 50% of a company in Germany for $US 50 million. In March 1995, Paperco acquired the outstanding 50% of the German company, effective in July 1, 1995. This company has four box-manufacturing plants, one sheet plant and one paper mill in southern Germany. This acquisition was master-minded by Australian Paperco executives, not by Boxco in Europe. The judgment was made that Boxco management in the United Kingdom were fully occupied with greenfield projects and had considerable amounts of capital at risk, on which Paperco was eager to see returns. Therefore, a study team was developed at Boxco divisional corporate level in Australia. Desk research on companies in Germany, Italy and Spain was conducted, resulting in a short list of potential acquisitions. Through this process, the German company was identified and acquired. This became a shared management
role, between the management effort supplied from Australia and the very large, established family company that suddenly became a corporate-owned factory. The original family owners departed, leaving a management vacuum which has caused several problems for Paperco. These problems are yet to be fully resolved. The major issues relate to management methodologies used in the company. Paperco is currently installing corporate information systems in efforts to improve their ability to assess processes and productivity in this business.

The German organization is perhaps the European operation most representative of Paperco operations in Australia. The German company is well-established, with four box manufacturing plants, one sheet plant and a paper mill in southern Germany. It is the market leader in Germany, with sales which are the third highest nationally, and the highest in southern Germany. Market leadership has enabled the company to diversity operations, with several specialities, including heavy-duty packaging, dangerous goods packaging, and liquid packaging. For example, the Rhein-Main plant focuses on the Sekt (sparkling wine) market, while the Munich factory provides packaging for local chemical manufacturers. Packaging for the automotive industry is also a major part of the business. The German organization is well-placed to meet growing demand, particularly from eastern Europe.

Analysis of Research Questions

Question 1: Exogenous Factors and Australian Multinational Enterprises

The first research question posed in this thesis is:

*In what ways are environmental factors such as government actions, regional economic activity, and cultural diversity, influential for Australian MNEs operating in the EU?*

Several environmental factors in the EU have been influential for Boxco. The major areas of concern relate first to the potential impact of EU-level developments, such as developments in European integration which will have an impact on the paper
industry. Second, EU legislation, particularly directives related to environmental issues, are a major concern. Third, the integration of central and eastern European countries into the EU is identified as a concern, in terms of macro-economic and social impact.

Legislative requirements at national and EU levels have been of particular importance with regard to areas such as environmental waste management. Box manufacturing, as part of the paper industry is subject to a range of legislative considerations. These include emissions to air and waste reductions. Boxco has established an environment policy which includes measurable objectives for all areas of the organization, with regular review and modification; this policy is integrated with the business planning process. Environmental responsibility is incorporated into operational job specifications for each employee, skills training with regard to environmental issues is being conducted, and employee participation in the resolution of environmental issues is encouraged through discussion groups.

The impact of the EU social dimension is particularly evident in the requirements for Boxco to comply with employment laws, such as the EU directive related to works councils. Where required, the EWC directive is complied with, as Boxco have works councils in France and Germany. As discussed in Chapter 3, the EWC directive has the potential to offer employees and trade unions a mechanism for European-level organization. The scope of the directive was, however, limited to information and consultation; it does not provide for substantive collective bargaining over the wide range of labour-management issues which arise in MNEs (Gold & Hall, 1994; Marginson et al., 1995). It is interesting to note that Boxco have introduced similar councils, called 'discussion groups', in the United Kingdom operations. With regard to areas such as occupational health and safety, Boxco appears to be meeting all requirements fully (Addison & Siebert, 1992). Boxco's approach is based largely upon the requirements for Australian occupational health and safety legislation, and as such is quite sophisticated (De Cieri, 1995). With regard to other employment areas, such as equal opportunity, Boxco is complying with legislation where required.
Overall, the EU social dimension presents a complex and changing external context within which MNEs such as Boxco seek to operate. Boxco's increasing size and bargaining power provide increasing resources and security. It also, however, increases the likelihood that the organization's public profile grows and Boxco may be targeted for industrial action in the future. Boxco's pattern of maintaining a low profile while a small entity in the EU appears to be a worthwhile strategy for other Australian MNEs to emulate in the EU. As an MNE increases its presence in the EU, potential lobbying power and community responsibilities become more obvious.

Awareness of cultural diversity across the Member States of the EU was a major determinant of Boxco's polycentric approach to management of national subsidiaries in the EU. Particularly in France, the experience of cross-cultural differences in management approach has been a difficult lesson for Boxco to learn. Notwithstanding the awareness that national operations are best managed by host country nationals, Boxco appears to have little choice but to provide technical and managerial knowledge transfer for the German operations. At least in the early stages of ownership, the transfer of knowledge is an imperative to ensure the long-term survival of the operations.

Regional economic activity has been particularly influential for Boxco in Europe. Economic recession across the EU, and particularly in Germany and France, has had a direct impact on the performance of Boxco operations and profitability (as will be discussed later, with regard to organizational performance). National industrial action in France in 1995-96 provides an example of macro-level social issues which continue to have important implications for firms operating in this context.

With regard to industry-specific factors, it is evident that the paper industry is undergoing a rapid pace of change. In mid-1995, paper companies were at the top of an economic cycle, with good share values and strong profit forecasts. Quite dramatically, the supply-demand situation has changed, such that in 1996 paper companies in Europe generally have declined by 25 to 30 per cent in terms of their market capitalisation.
Analysis of competitors' activities, particularly in the United Kingdom, has influenced Boxco's strategic decision making. Conversely, Boxco has influenced the decisions and strategic moves by competitors (e.g. for value-added production; in-line production processes). Competitors in the United Kingdom industry have attempted to follow Boxco's approach to in-line processes, but have been hampered by their extant technology and history. One common criticism of many of these competitors is that they have focused solely on purchasing equipment, without realising that a change of organizational culture requires more attention. In contrast, Boxco's greenfield sites do not need to overcome problems associated with established acquisitions. As one manager described their situation: "To have a young company with a new culture is quite easy if you know what you're doing". Furthermore, the experience gained through the greenfield site developments in the United Kingdom provides Boxco with the competence to build a factory at very short notice, anywhere in the world.

There is also substantial evidence that Boxco has had influence over its environment in the EU, in political, economic, social and environmental terms. At the March plant in the United Kingdom, Boxco was viewed as the turning point of the local community's regeneration plans. A small industrial park of 60 acres was constructed just outside of the town. The town population is around 18,000 people. The local environs suffer from under investment. Boxco became the largest employer for the town, and their 'showplace' factory influenced other investors to join the industrial estate. This investment by Boxco has been used by the British Information Board as a feature case study, in a film produced about the government's inwards investment program. In fact, Boxco has neither requested nor received government grants or assistance from the Board of Trade, nor assistance from the Australian High Commission. Boxco's investment in the United Kingdom has, however, facilitated a positive relationship with government bodies.

The relationship between Boxco and the local community around all of their factories has been overwhelmingly positive. Boxco has made considerable efforts to be viewed as a socially responsible corporate citizen. For example, at March, Boxco has
'adopted' a local school by sponsoring student prizes; the organization also provides the shirts for the local football team. Fortuitously, the local March community is positively disposed towards Australians. This appears to be associated with the actions of an Australian pilot during the Second World War. His plane was damaged in battle and he managed to divert his plane off the town, crashing in a field, killing himself and his bomber crew. Boxco has created a commemorative annual award for the person aged under 18 years who, in the voting of their peers, does most community work.

Similarly, the German organization has strong community involvement, reflecting its size and long history of establishment. Community relations are also developing at the Mold plant. The local township is desperately in need of investment, and the capturing of Boxco's investment was a huge success for the town. Boxco's investment has also stimulated investment by other firms. There is less interaction with the local community at the Leicester plant, as the nearest community is 2 miles away from the plant. The French plant has some local community involvement, but as a relatively small organization has a lower community profile than Boxco operations elsewhere.

Direct relationships between external factors, such as requirements for community involvement, and endogenous factors, such as organizational size, are apparent in Boxco. This is shown by developments in the United Kingdom over a number of years. Whilst Boxco was small and growing, the organization tended to keep a low profile on community and industrial issues. As Boxco has not joined the employer association, nor joined local business groups, managers' attentions have been strongly focused on actually running the operations. In fact, Mr E. decreed that Boxco people should not be involved in general community work. This approach was based largely on a concern that competitors might meet Boxco managers off-site, and entice them away from Boxco's employment. Another explanation for Boxco's abstention from membership of an employer association is their preference for single-employer approach to industrial relations and bargaining, as will be discussed later in this chapter.
More recently, Boxco has adopted an approach which is arguably more mature. As Boxco is approaching 10 percent of sales in the United Kingdom market, the organization must be represented on committees, such as those discussing the collection of wastes and various legislative issues at national and at EU level. As mentioned earlier, environmental issues are particularly pertinent to this industry.

Question 2: The EU Social Dimension and Australian MNEs

The second research question for this thesis is:

*What will be the implications of the EU Social Dimension for Australian MNEs operating in the European Union?*

As for the Chemco case study (reported in Chapter 7), the matrix of national laws, collective agreements, practices and procedures in the various EU Member States forms a substantial platform of social policies in the EU with which Boxco must develop familiarity and compliance. It is apparent that the impact of the social dimension will vary across the Member States where Boxco has operations (Bercusson & Van Dijk, 1995; Van Peijpe, 1995). Further detail with regard to SIHRM will be discussed later in this chapter.

To summarize the findings with regard to the first two research questions, environmental factors such as government actions, regional economic activity, and cultural diversity, have been influential in several ways for Boxco's operations in the EU. Furthermore, there are several implications of the EU Social Dimension for Australian MNEs such as Boxco. Each of the external factors is closely related to the EU social dimension, particularly through legislative developments. Each factor has been influential to the extent of affecting the profitability and productivity of Boxco. Each has required reaction and response on the part of Boxco management and employees, either by compulsion or on a voluntary basis. Furthermore, Boxco has demonstrated capacity to exert influence over at least some of these EU environmental factors, and to bring about change in its environment as a direct or indirect result of management actions and strategic choices. Indeed, as noted in Chapter 5, such firms
"are not prisoners of their environment but are more able to shape and structure their activities and environment to maximise the achievement of their purpose..." (Purcell and Ahlstrand, 1994: 49).

The relationships between the various external factors discussed with regard to research questions 1 and 2, and SIHRM in Boxco, are explored further, in relation to the research propositions [P5(a) to P6(c)], later in this chapter.

**Question 3: Issues related to SIHRM for Australian MNEs Operating in the EU**

The third research question posed in this thesis is:

*What are seen as the key current and emerging issues related to SIHRM for Australian MNEs operating in the EU?*

Boxco's approach to SIHRM in the EU was investigated to examine issues related to the third and fourth research questions posed in this thesis. Overall, major SIHRM issues confronting Boxco in the EU are related to the perceived emerging need to address organizational and SIHRM issues in the context of the EU as a single market. Major issues throughout the early 1990s included the influence of the economic recession in the EU and recognition of the cultural and language diversity across the EU. Furthermore, SIHRM issues relate to the potential for growth and coordination of Boxco's operations across regions of the world. Such issues are anticipated to continue to be influential for SIHRM in Boxco in the future.

For Boxco, SIHRM current and predicted issues relate to the potential for growth and coordination of operations across regions of the world. As for many MNEs, a key challenge for Boxco remains with regard to the achievement of balance between the strategic MNE components of co-ordination and linkages between MNE units and responsiveness through autonomy and decentralization of decision-making to operations in such as those in the EU (Bartlett & Ghoshal, 1992; Schuler et al., 1993).

The implications of such issues for SIHRM in Boxco, which would apply to other
Australian MNEs, are related to a broad range of aspects related to working and living conditions in the EU. These are discussed in more detail with respect to the fourth research question.

Question 4: Empirical Evidence of SIHRM in Australian MNEs in the EU

The fourth research question posed in this thesis is:

*What empirical evidence is there of SIHRM in Australian MNEs operating in the EU?*

Endogenous Factors

Factors endogenous to MNEs which are influential for SIHRM include organizational strategy, organizational structure, headquarters international orientation, and experience in international business (Schuler et al., 1993). These factors are examined in order to investigate the evidence of SIHRM in Australian MNEs in the EU.

The strategy for the European regional operations for Boxco is strongly aligned with the overall organizational strategy for Boxco and Paperco, characterized by a concentrated focus on high quality and service throughout their operations, combined with efforts to reduce costs. Strategic objectives for Boxco in Europe relate to the continued development of businesses in the United Kingdom and efforts to achieve improved results in France and Germany.

As noted earlier in this chapter with regard to Boxco management overall, Boxco managers and operatives in the EU report a high level of attention to development and revision of organizational strategic issues and associated management philosophies (Mintzberg & Waters, 1985). One aspect in which Boxco management have sought to provide a clear strategic vision for employees is with regard to the organization's position in the EU market. For example, in the initial stages of entry to the United Kingdom market, Boxco's strategic aim was simply defined as "to be a significant player", rather than setting an initial target of "x per cent" of market share. The
organization subsequently established the target of 10 per cent of the United Kingdom market, a goal which has almost been achieved. Organizational strategy is discussed further with regard to the research proposition [P9(a)] later in this chapter.

With regard to organizational structure, (as shown in Figure 9.2), Boxco operations are organized on a geographic divisional basis. This structure has resulted from the narrow product range and a requirement to be responsive to customers in each region. Boxco's geographic divisional structure endeavours to maximize local responsiveness to a region (Hill, 1994). Within the EU, however, Boxco functions as a multinational structure, as a result of the decentralization to national units. Boxco senior management argue that national businesses are best managed by host country nationals. The organization faces a considerable challenge, however, in attempting to achieve regional coordination across national units with a diversity of markets and cultures. Organizational structure is discussed further with regard to the research proposition [P7(a) to P7(d)] later in this chapter.

With regard to mode of internationalization, Paperco/Boxco capitalises on competitive advantage through multidomestic strategies of producing in their countries of sale. For Paperco/Boxco, the mode of internationalization is mandated by the Managing Director to be through greenfield sites or through majority equity holdings with contractual arrangements for full ownership by Paperco within three to five years. Hence, Boxco provides an example which supports the findings of Yetton et al. (1992), that successful Australian international manufacturing enterprises follow a pattern to capitalise on their competitive advantage through multidomestic strategies of producing in the countries of sale (Porter, 1986). As Yetton et al. (1992) noted, enterprises such as Boxco export "invisibles" such as management systems and proprietary technology from Australia to the EU.

With regard to headquarters international orientation (Chakravarthy & Perlmutter, 1985), the ultimate aim of Boxco is to develop host country nationals for the most senior positions in their own country. This polycentric approach may not, however, include the key finance position: this will remain a position for appointees from
The consistent view of senior managers in the European region is that nationalistic tendencies, particularly in France, and the partial ownership of the French and German operations (until more recent developments), have led to the use of a polycentric approach. Boxco managers in the EU remain strongly committed to this decentralized approach. This approach emphasizes responsiveness to national diversity but may underestimate the requirements of the complex developments in the EU for sophisticated managerial development, in particular the development of 'managers of diversity' or 'Euromanagers' (Bournois, 1992; Bournois & Chauchat, 1990) capable of managing Boxco's burgeoning business in this region.

There is some use of third country nationals in Boxco, although long-term transfers tend to occur more in the Asian region than in the European region. Generally, transfers of third country nationals within the European region have been confined to short term assignments, typically of three months duration. This provides an interesting contrast between staffing policy and practice across the two regions of Europe and Asia. Boxco operations in Asia take a regiocentric approach to staffing (Heenan & Perlmutter, 1979). More specifically, Chinese-Singaporeans are in general management positions in Singapore, Hong Kong, China, and Malaysia. It is the view of the Group General Manager (Asia) that the Singaporeans excel in the mix of intellectual, interpersonal, and personality characteristics which enable strong performance in the Asian region. The common Chinese cultural heritage across these Asian nations is seen as a key factor in the acceptance and success of Chinese-Singaporeans. It is acknowledged, however, that cultural diversity within the Asian region would make the appointment of a Singaporean or indeed anyone of Chinese heritage, as the key manager in Indonesian operations, highly unlikely. Indeed, this factor, combined with lack of availability of a local Indonesian with the requisite skills, led to the appointment of the only Australian expatriate in the Asian region: the incumbent took up the position of President Director in Indonesia in November 1994 (Paperco newsletter, June 1995).
The European region is uniformly described by Boxco interviewees as an operation organized into national subsidiaries with local coordination of products, human resources, and functions such as marketing. At present, it is argued that national businesses are best managed by host country nationals. While Boxco has been successful with a polycentric approach during this establishment and growth phase, the organization faces a considerable challenge in attempting to achieve regional coordination across national units with a diversity of markets and cultures. As the organization achieves maturity in its EU operations, a greater emphasis on regiocentrism (as in the Asian operations) may provide more potential for coordination. Given the overall decentralized and regional structure of Paperco management, the development of a more geocentric approach (integration across regional operations) does not appear to be a likely option.

The human resource management function in Boxco is represented by the General Manager Human Resources in Australia. For each regional operation outside Australia, the General Manager fulfils the HRM function. This reflects the devolution of the HR function as initiated in the early days of the Managing Director's term in office. As stated earlier, the only function in which control has been retained on a centralized basis is that of finance.

The dominant management style in Boxco's European operations, and particularly in the United Kingdom, appears to be a mixture of benevolent paternalism and allowance of autonomy at national level. Contact between the Boxco operations in the United Kingdom, France and Germany are quite frequent and detailed, with monthly visits (at least) by Mr E. or other senior regional managers, and staff transfers from the United Kingdom operations. While many decisions are decentralized from corporate headquarters in Australia to regional headquarters, within each national subsidiary there is a fairly centralized and top-down decision making approach.

With regard to the German operations, however, there appears to be somewhat more ethnocentric approach (Chakravarthy & Perlmutter, 1985), as the investment was instigated by, and continues to have direct involvement of, Paperco corporate
management from Australia, to a greater extent than Boxco regional management located in the United Kingdom. At present, there is considerably more interaction between Boxco United Kingdom operations and the German operations with respect to technical and operational management issues, than with regard to regional strategic issues. While this reflects the polycentric orientation, it appears to hinder efforts for coordination across the region. Headquarters international orientation is discussed further with regard to the research proposition [P8(a) to P8(d)] later in this chapter.

With regard to MNE experience in international business, Boxco have relatively limited experience in international business, despite a great deal of experience as a large player in the domestic Australian market, and a very experienced senior management group. The implications of these circumstances for SIHRM are discussed in more detail with regard to the research propositions [P10(a) and P10(b)] later in this chapter.

**SIHRM Issues, Functions, Policies and Practices**

Key SIHRM issues evident in Boxco's EU operations relate to interunit linkages; through mechanisms for control and co-ordination. Such mechanisms may be viewed as reflective of strategic MNE components of integration and responsiveness (Schuler et al., 1993). The key finance managers in each Boxco location are Australian expatriates. Indeed, most Australian expatriates in the European region have been either in finance or engineering roles. One key strategic purpose for the expatriation of financial managers is the exercise of the control mechanism of centralization, to ensure the locus of decision-making lies in the higher levels of the organisational hierarchy (Child, 1973; Galbraith & Kazanjian, 1986; Pugh, Hickson & Hinings, 1969). The expatriation of finance and engineering employees may also be viewed as a critical flow of people (Bartlett & Ghoshal, 1987, 1989), in order to have an impact on the corporate culture, and to transfer knowledge, skills and ideas. Expatriation therefore forms an important international HRM activity in Boxco. It could be suggested that Boxco management appear to have considered the strategic implications of expatriation only in fairly narrow terms, focusing on skills and control.

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It appears that less attention has been paid to the longer term organizational effects of expatriation or whether the current approach is sustainable.

_Bureaucratic_ control mechanisms which have previously been reported as common in Anglo-based firms are evident in Boxco, for example, in the strict requirement for formal monthly reporting (Bartlett & Ghoshal, 1992; Ghoshal & Nohria, 1989). Boxco's monthly reports include performance data such as: profit before interest and tax; average selling price; average cost of paper, percent of controllable waste, sales against budget and market surveys data. The range of performance measures is broken down by department. HRM performance indicators include cost of labour, absenteeism, and overtime recorded (Company documents & interviews). As all Boxco operations worldwide produce virtually the same product range, regional performance is benchmarked against others around the world. Informal mechanisms of control (Deresky, 1994), such as visits to each factory by senior national management, are facilitated by the polycentric location of senior management (Heenan & Perlmutter, 1979). Visits by senior regional management (particularly Mr E.) are fairly frequent, on a monthly basis. Telephone and facsimile communication occurs on a more frequent basis, with regular reports focusing on performance measures.

Another mechanism of control or co-ordination, _normative integration_ will be achieved through regular visits to Australia by host country national employees. At present, this is quite a common practice in the Asian region, but as yet is not a frequent practice for the European region. These visits are specifically intended to achieve the building of common perspectives, purposes and values amongst managers across different units (Bartlett & Ghoshal, 1989; Edström & Galbraith, 1977; Ghoshal & Nohria, 1989, 1993; Martinez & Jarillo, 1991). Host country national employees are brought to Australia for a range of activities, including conferences, training opportunities, and specific projects. These visits range from a few days to a few weeks, to a few months. A consistent view of senior Boxco managers is that these visits serve to facilitate relationships between functional counterparts across the global operations. As one senior manager (company interview) aptly described it:

_We bring them to Melbourne to "Paperco-ize" them, to help them feel they are..._
Throughout Europe, every company in which Boxco has some ownership continues to operate under the original name. In the words of one manager, they are "Paperco-ized to the minimum". This approach is taken to prevent difficulties which have been witnessed in competitor firms, in which corporate culture and methodologies are forced upon smaller companies, with negative results with regard to productivity and employee morale. Even after full acquisition of companies in which Boxco initially had a minor interest, company autonomy is emphasized on strategic and operational issues. To provide the minimum coordination, there are monthly board meetings, with Mr E. and the Boxco Financial Controller included as Board members.

In addition to the issue of co-ordination across the EU operations, there are a number of SIHRM functions, policies and practices which are important to examine at Boxco. These are discussed below.

Recruitment and Selection
The establishment of the March factory, as the first factory in the United Kingdom, provides an example of the recruitment and selection procedures followed in Boxco. Key managers for the March plant were recruited by Mr E. from his collection of personal contacts; he selected people he felt would be compatible with himself. The key dozen or so individuals were all from the industry, and people with whom Mr E. had previously worked. For lower levels, a 'classic' management pyramid was formed with regard to administrative functions. Mr E. selected the key managers, they in turn selected their choices for the next level, and so on. This pyramid of management comprised a group with strong capabilities and technical knowledge: "a tremendous gladiatorial team". With regard to process workers, the local labour market was

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In fact, the term to "Paperco-ize" employees was used by a number of Boxco interviewees in a variety of contexts. The term appears to have a shared meaning and acceptance by a range of managers. In some cases, it was used to refer to a more centralized management approach, compared with the current decentralized approach.
utilized, although there was a concerted effort to recruit labourers who had not worked in factories before, mainly in order to avoid the importation of adversarial industrial relations. Selection criteria were established. First, high priority was given to those living locally to the plant. Second, efforts were made to split the age group, to recruit school-leavers, and people in their mid-20s and mid-30s. Few were employed at ages older than mid-30s. Third, it was stipulated that, provided they were intelligent and could pass aptitude tests, they would be interviewed for possible employment.

Boxco advertised in local newspapers for the first 37 people; 680 applications were received within three working days. The company was forced to close the recruitment process due to the volume of incoming mail. The 680 applications were sorted down to around 180 people. Those 180 people were given aptitude tests. This reduced the group under consideration to around 90 people. These 90 people were interviewed by the supervisors and line managers.

March is in an area reliant on agricultural industry. It is located in the Fens region and is quite an isolated community. As one manager described the local people:

*They are clannish. Fen people are very slow to make friends and to accept outsiders. Once they do, they have got the loyalty of an English sheepdog, you know, they'll follow you forever. So they are slow to motivate, but totally honest [and] physically very strong.*

Most new employees in the March plant had previously been either agricultural workers or their previous employment had set their wage or pay rates according to agricultural rates. The terms and conditions offered by Boxco are very attractive in comparison with local employment conditions.

Equal opportunity for females presents a challenge to Boxco operations. Women are not represented proportionally at Boxco, although there are some senior female managers, including the personnel manager at the March plant, and the transport manager. There are no women production workers. It is interesting to note that Boxco worldwide does not perform well with regard to employment of females.
Boxco employees are 82 per cent males and only 18 per cent females. This compares poorly with the statistics of 35 per cent females in Packetco, although is better than the 8 per cent of female employment in the paper division. Paperco executives consistently point out the difficulties of recruiting women to their industries. In order to achieve maximum productivity, Boxco's United Kingdom plants operate with three eight-hour shifts per day. The three-shift operation requires factory employees to work on at least two of the three shift-times. Women, particularly those with kinship responsibilities (Erwin & Iverson, 1994), appear reluctant to take up such employment.

Terms and Conditions of Work

Every employee at the March and Mold factories has signed an individual contract. While Boxco management recognize that such individual negotiations may not be possible to introduce in all operations, due to national legislation and workforce responses, these contracts represent the 'ideal' arrangement from the perspective of Boxco management. 39

The March and Mold factory contracts have been adapted and refined over the years of operation, such that in 1995 the contract for a double-day shift worker is a 12-15 page document. Some elements of these contracts are required by law in the United Kingdom, but Boxco has extended the contractual coverage considerably further than the law would require.

Every employee signs a renewing contract each twelve months, based around the financial year commencing on July 1. Contracts are sent by mail to each employee's home before the end of June each year. As a matter of policy, Boxco management reserve the right to alter the contracts each year. Past contracts show that conditions of employment have not been worsened with these alterations. Rather, the intent has

39 Individual contracts have been controversial in the Australian context. Boxco senior management stipulated that there are no immediate plans to introduce this approach in Australia.
been to make minor refinements. One feature of these comprehensive contracts is a critical health insurance clause which covers 14 different serious diseases, including heart attack, stroke, kidney failure, paraplegia, blindness, AIDS, and Parkinson's disease. If any employee suffers one of the listed illnesses, after 14 weeks of absence from work, he/she will receive 25 per cent of a sum of money (this sum being two years pay or 50,000 United Kingdom pounds, whichever is the higher). If the employee is absent for another 14 weeks, he/she will receive the remaining 75 per cent of the sum of money. These are generally considered to be generous terms in the local context.

Performance Management, Training and Development

Management performance is evaluated through several formal and informal measures. The measures are linked to a comprehensive range of financial and productivity objectives. For all employees, performance objectives are established with the supervisor (direct reporting line) and regular performance reviews are conducted on an individual basis. Considerable emphasis is placed on the career development of employees. For example, in 1994, 35 new tertiary graduates were recruited into Boxco. All graduate trainees complete a basic induction and training program. Following this, a performance evaluation and career development interview is conducted with each trainee, with the aim of establishing a placement match between the individual's career interest and position availability.

The performance management system is linked with the succession planning process. All Boxco factories have at least two employees being prepared for the plant general manager's position. The succession plan is carried through to the level of department heads. The ultimate aim of Boxco is to develop host country nationals for the most senior positions in their own country, with the exception of key finance positions, as mentioned earlier. A major emerging issue for Boxco is, however, the perceived shortage of suitably qualified managers with the competence to maintain the pace of growth of the organization's business. Indeed, this issue may reflect the challenges apparent amongst the Paperco senior management group, as well as the limitations of
a polycentric approach to staffing, as discussed earlier.

Several incentive schemes operate across all employment levels, with considerable variation across the different Boxco factories, even within one EU Member State. For example, at the March and Mold factories in the United Kingdom, employees are paid in the upper quartile for the industry in terms of their gross wage, but receive no bonuses or financial incentives. In contrast, the Leicester factory does not operate under those conditions, because they have continued with the performance management and reward scheme which was in place before Boxco ownership. The Leicester factory does operate with an incentive payment scheme which is modified each year. Overall, the conditions are fairly comparable across the Boxco factories.

Across all organizational levels, awareness of organizational performance is encouraged. More than 11,000 Paperco employees in Australia, New Zealand and the UK are Paperco shareholders as a result of an incentive plan which enables employees with one year's service to take up shares on attractive terms, depending on the increase in Paperco's earning per share (Paperco annual report, 1994).

Compensation

In each regional operation, Boxco refers to market compensation surveys to establish management compensation levels. The compensation policy is to maintain pay levels at or near the top end of a given scale, in order to meet the objectives of attracting, motivating and retaining high quality employees (Dowling & Schuler, 1990; Schuler & Jackson, 1987). In this respect, the strategic objective of high quality outweighs the competing objective of cost reduction. Boxco attempts to promote itself as an attractive, challenging environment, offering a wealth of experience, particularly to bright young graduates. The potential for this experience is, of course, somewhat limited by the polycentric or regiocentric staffing approach (Dowling et al., 1994). Upon analysis, this limitation appears to be substantial for Boxco; of concern, however, is the apparent lack of awareness amongst Boxco senior management of the difficulties which may lie ahead, related to this limitation. As Dyer and Reeves (1995)
have argued, it is important to recognise the horizontal linkages within SIHRM as well as the vertical linkages with other elements of the MNE, in order to develop 'best practice' SIHRM.

For shopfloor employees, the March and Mold factories again represent the ideal towards which Boxco would envisage their other operations should move. The compensation policy is based on an annualised salary. Compensation is set in the upper quartile for the industry in terms of their gross wage and no bonuses or financial incentives are paid. Boxco buys forward, in the salary, 200 worked hours of overtime. If an employee works 200 hours overtime in the course of a year, he/she is paid at a rate following his/her hourly average. If an employee is absent due to illness, he/she receives full compensation for three months. An absence longer than three months could make the employee eligible for half-compensation for the rest of his/her working life. This system is managed under an insurance program. Boxco funds any payments related to the first three months of absence, and the insurance program covers any subsequent funding required. Company records show that the large majority of absences are for periods less than three months.

This compensation policy is generally viewed by employees as a secure income which provides benefits and coverage they could not receive elsewhere. As one senior manager described: "We have smothered the individual. Over the years we have developed a policy of drowning them in welfare...If you do that to people, they will die rather than let you down".

Expatriate Management

In 1996, Boxco employs twelve Australian expatriates in the European structure. All have tertiary qualifications (some have post-graduate qualifications) in engineering, accountancy, or business administration. In 1991-92, Boxco's expatriate selection, training and performance appraisal systems were still in development, reflecting the limited experience with expatriates up to that time. By 1995-96, Boxco had relatively comprehensive formalized policies for all expatriate management phases.
As noted earlier, Boxco management would prefer that national businesses were managed by host country nationals. Boxco has, however, experienced such a rapid rate of expansion that in several cases it was not possible to recruit local people with required skills, such as a trained corrugator electronics engineer. It is argued that each expatriate in the EU region possesses skills not available amongst host country nationals, as work visas are not permitted if it is possible to recruit locally for the required skills. Expatriate recruitment strategies have utilized both the internal and external labour markets in Australia, recognizing that international experience is generally viewed as a highly desirable job feature, particularly amongst young Australians.

The emphasis placed on expatriate selection criteria, such as strategic characteristics, technical qualifications, and general management skills, varies according to the context, including national cultural issues and task requirements (Black et al., 1992; Tung 1981, 1982). For example, in September 1995, Boxco recruited two accountants for the European operations. The most senior of these is the appointment to the position of Financial Controller, subsequent to Boxco's full acquisition, of the German operations. In addition, applicants were sought for employment elsewhere in Europe, particularly in France. These vacancies reflected Boxco's strong growth in the EU. A recruitment consulting firm was engaged for the process. It is interesting to note that in advertisements placed in the leading Australian business newspapers, Boxco's name was highlighted, a somewhat unusual practice in Australian management recruitment. It was felt that the organization's strong public image would help to attract high quality applicants. Selection criteria for these positions included substantial management accounting experience in a large manufacturing environment (with a focus on cost reduction), an ability to encompass a broad range of financial skills (reflecting the decentralized nature of the organization), and fluency (written and oral) in either German or French. The recruitment and selection process was managed by Boxco corporate headquarters in Australia, with consultation with the German operations and Boxco EU regional senior management. The President Director-General of the French operations was consulted with regard to the appointment in France. The successful candidate for the position of financial
controller in Germany is a son of German migrants to Australia, who was educated in Australia but has lived for some years in Europe. He holds an EU passport, which removed the need for a work visa and simplified several processes for eligibility to take up the position. He is divorced and has two children, both living with their mother in Sydney Australia. This appointment appears fortuitous, as the manager's personal circumstances enables the MNE to effectively avoid a number of SIHRM issues, particularly those related to equitable treatment for host country nationals.

Partner and family factors are not incorporated into the Boxco expatriate selection decision process. Boxco management are aware that these factors affect employee decisions to accept relocation offers, but these are deemed to be matters for the individual and his/her family to consider (Black et al., 1992; De Cieri et al., 1991; Harvey, 1995). As one expatriate stated: "We're adults -- Boxco is supportive, but it would be unprofessional and impractical to expect everything to be handed to you". This view seems to be held consistently across Boxco managers and professional employees. While this current approach seems to work effectively, it might suggest some level of toughness or bravado required within the organization, so that expatriates may not feel comfortable admitting to any personal difficulties. Alternatively, it could be argued that recommendations for comprehensive expatriate support and management need to be tempered by recognition of feasibility constraints. Boxco management argue that "cost is not the main consideration; we follow common sense and good management practice". Within the current expatriate group, the relocation to Europe is viewed as a positive and desirable assignment. Every Australian expatriate who has been in Europe for more than 6 months has been promoted since they arrived in Europe such that all are now in key line management positions. The promotions already experienced and the organization's growth provide a sense of security and potential career development.

All new recruits to Paperco participate in an induction program (to "Paperco-ize" the recruits) and receive a comprehensive briefing with regard to job responsibilities, performance objectives, and long-term career prospects. This process includes those recruited for expatriate assignments. With regard to pre-departure training for
expatriates, the findings were somewhat restricted by the fact that Boxco expatriates to date have all been highly qualified in a technical sense (e.g., as engineers). Language training and cross-cultural training provided by consultancy services are available to expatriates and their families, although the company views participation as voluntary. Expatriates and their spouses or families may request specific assistance or preparation before departure. Several expatriates assigned to the United Kingdom have foregone this preparation, deeming it as largely unnecessary. Given the small numbers and high calibre of expatriates in Boxco’s European operations, there have been few problems encountered thus far. With growth in operations, potential growth in expatriates, and increasing requirements for managers to be able to operate across EU Member States, it is arguable that the preparation provided requires revision and expansion if Boxco is to be able to meet future SIHRM challenges.

Thus far, expatriates to the EU operations have not been provided with pre-assignment visits, although assistance with housing and requirements such as children's schooling is available. Requirements such as work visas for expatriate spouses are viewed as a matter for the individual, although help would be provided upon request. Within a week of their arrival at their destination, expatriates are briefed by Boxco senior management and key colleagues with regard to specific local conditions. The relatively small size of the towns for assignment locations has perhaps facilitated the adjustment of expatriate families: "the people are friendlier, because it’s not like an enormous city where nobody knows who you are". Furthermore, the experience of Australians in travelling long distances facilitates an acceptance of travel outside their local town, if, for example, they wish to visit major cities. Generally, expatriate assignments are of four years' duration, with annual return visits to Australia provided. Two expatriates have, however, exceeded five years in their expatriate assignment. With regard to SIHRM functions such as general support for expatriates however, the findings were more positive overall than for the Australian data collected by Davidson and Kinzel (1995).

Policies for expatriate performance appraisal and compensation are currently being revised. For expatriate compensation, as with all managerial appointments, Boxco
refers to market compensation surveys to establish compensation levels. The compensation policy is quite generous, again in order to meet the objectives of attracting, motivating and retaining high quality employees (Dowling & Schuler, 1990; Schuler & Jackson, 1987). Indeed, in support of Davidson and Kinzel's (1995) findings in a survey of 88 Australian MNEs, Boxco appears to be relatively generous in terms of financial inducements for expatriates.

Within the European operations, there have been several staff transfers. For example, in the French company, Boxco placed a British general manager there for two years. Several British computer programmers and operators were transferred to France for periods of 3 months. In the German company, there are currently (in early 1996) a number of non-Germans (mainly British managers) employed. In Mr E.'s words:

*It's a moot point whether you do more long-term cultural damage by bringing in Brits to do the job, than persisting in trying to train the Germans. Often, your choices are limited by what the profit-and-loss statement is saying. If you're losing money, you've got to move fast. The fastest is sometimes to bring your own experts in.*

In 1996, the first host country nationals will be brought from the United Kingdom to Australia, for induction into Paperco and long-term expatriation. It is envisaged that staff transfers will become two-way between Australia and Europe. Australian expatriates recruited in 1995 have been informed that their careers may extend beyond the EU region; in earlier years, expatriates reported a stronger focus on a specific country, or this region. This change reflects an emerging awareness of the need to move away from the polycentric approach.

As yet, no expatriates have been in the European region to the completion of their assignment, so no repatriation after long-term assignment has yet occurred in this region. Three Australian expatriates are due for repatriation in late 1996. While Boxco European region has not yet dealt with repatriation issues, there exists a repatriate assignment plan and repatriate career development policy which will be utilized.
Overall, expatriate management policies at Boxco reflect the previous findings for large Australian MNEs, in that the policies showed incorporation of several features to benefit individual and organizational goals. Boxco appears to have developed a sophisticated approach to expatriation throughout the 1990s, such that there appear to be considerable improvements on policies reported in the extant literature (Davidson & Kinzel, 1995; Dowling & Welch, 1988). Boxco senior management appear to recognise the strategic importance of SIHRM. Top management attention is given to planning and preparation for expatriate assignments, although accurate forecasts of staffing needs throughout the Paperco total operations is still embryonic (Davidson & Kinzel, 1995; Kobrin, 1994). In fact, an SIHRM issue of growing importance is the role expatriation will play as Boxco's international operations and staffing approach evolve. As has been noted with regard to several previous points, issues related to expatriate management appear likely to require reassessment and revision of current approaches if Boxco is to effectively meet future challenges associated with the organization's development in international business.

**Industrial Relations**

Boxco has no union representation anywhere in the United Kingdom. Senior management argue that:

*there's just no place for them if you don't need them. Your industrial relations are really what you deserve. If you can manage people correctly and you've got the right people, then it's much easier to talk directly, rather than through a third party.*

In the United Kingdom, Boxco management will not discuss or negotiate terms and conditions with any group of people. Negotiations on terms and conditions of employment are always conducted on an individual basis. When the March plant was established in the United Kingdom, unions seeking representation in the plant were actively campaigning. Unionists camped on the site at March and gained media exposure on local television and radio stations. The union representatives complained that Boxco managers refused to meet with them. Boxco managers argued that union
negotiations were not high on their priority list. Employees expressed little interest in seeking union membership. Union representatives requested addressing rights in Boxco plants. Boxco management refused, suggesting that if unionists wanted to address Boxco employees, they should make their own arrangements. Boxco management were (and remain) confident that the terms and conditions of employment in Boxco exceed union achievements elsewhere in the United Kingdom. When the Mold plant was opened, union representatives attempted different tactics, requesting that Boxco become a recognised union company, in order that they could bargain with Boxco competitors to endeavour to achieve at those companies the terms and conditions of work which Boxco had granted to its employees. Boxco management again refused to negotiate with union representatives.

Boxco also did not join the employer association. Mr E. viewed it as hypocritical for Boxco management to meet with other firms once a month and discuss actions, when they would not allow employees to take similar collective action through union membership. In short, Boxco has maintained a distance from trade unions and from competitors. This seems consistent with previous research findings that foreign-owned MNEs in Britain preferred single-employer bargaining and direct employee involvement, rather than involving trade unions or an employer association (Bean, 1994; Hyman & Ferner, 1994).

In Germany and France, Boxco is required by law to have Works Councils. Comparable groups operate in the United Kingdom factories as 'discussion groups', although the topics for group discussion do not include terms and conditions of employment. Boxco management endeavour to use these groups for consultation on matters such as environmental problem resolution. The groups also provide a channel for management to conduct considerable levels of proactive information spreading. The Director or General Manager of each factory has a weekly meeting with groups of six employees, with rotation of groups. The meetings involve a "state-of-the-nation address, with plans and objectives". Employees are welcome to ask any questions at the end of this address.
One area in which the discussion groups have been particularly active is that of occupational health and safety. Significant reductions have been achieved in frequency and severity of injuries both in Australia and in international operations. An intensive program auditing occupational health and safety is conducted with particular attention given in 1994 to the formation of internal teams to review safety procedures at company sites. Regular reporting on compliance with company standards is required by Paperco corporate headquarters to provide directors with information on compliance throughout the organization's worldwide operations.

In some respects, Boxco might be seen as innovative with regard to occupational health issues. For example, Boxco management took quite an unusual approach in the March and Mold factories in the United Kingdom, by introducing a no-smoking, single-status company. It is not permissible to smoke, not just on the premises, but anywhere on the site. Employees wishing to smoke a cigarette during their meal breaks must leave the site. This no-smoking policy does not, however, apply to plants in other EU countries. This is due largely to the fact that the French and German operations were acquisitions, with organizational histories to be observed. Further, attitudes to cigarette smoking and civil rights vary considerably between these countries, such that a no-smoking policy could prove to be extremely difficult to enforce. The overall reaction of employees in the United Kingdom to such management efforts contains some low-level resentment of perceived paternalism. It is plausible that, given the individual basis of employment terms, bleak economic conditions and little opportunity for alternative employment, workers are mindful that they are fortunate to have relatively secure employment.

**SIHRM Outcomes**

Outcomes in human resource terms are generally positive for Boxco's EU operations. Absenteeism has consistently been very low for Boxco, and in 1995 was at 0.7 per cent. Employee turnover is negligible. In fact, there are substantial waiting lists of people seeking work with Boxco, many relatives and acquaintances of current employees. These outcomes are viewed as of critical importance for Boxco, as in
highly automated factories with quite low staffing levels, any absences have a noticeable impact on productivity. Boxco productivity compares favourably with competitors in the United Kingdom. Average productivity in the United Kingdom is approximately 90 tonnes of corrugated product per person per year. Boxco has a target of around 480 tonnes per person per year. This is achievable because the organization is in a market niche, due to their approach comprising low labour levels, high productivity, and sophisticated technology with computer-based equipment.

Effective SIHRM in Boxco should incorporate recognition of important exogenous factors and endogenous factors, in order for employees across all organizational levels and areas to interact effectively. In addition, it is important to recognize that SIHRM functions, policies and practices are inter-related (Dyer & Reeves, 1995).

**Analysis of Research Propositions**

The Boxco case study raises several interesting issues with regard to the research propositions under investigation in this thesis. These issues relate to factors exogenous and endogenous to the MNE, with regard to SIHRM issues, functions, policies and practices. The Boxco findings with regard to the research propositions are shown in Table 9.6

First, with regard to exogenous factors, Proposition 5(a) suggests that: *The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to SIHRM issues in attempts to control and minimize risk and increase certainty and predictability.* There are several ways in which this proposition is supported by the findings of this case study. The economic and political changes occurring within and around the industry in the European region are recognized by senior managers as rapid, intensive, and of global significance. Boxco appears to have responded to such changes with strategic actions aimed to control and minimize risk, and maximize predictability. This is exemplified by adherence to the mandated international entry mode for Paperco businesses.
Table 9.6. Findings Related to Research Propositions Examined in the Paperco/Boxco Case Study

<table>
<thead>
<tr>
<th>Research Proposition Under Investigation</th>
<th>Extent of Support Found</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>P5(a)</strong> The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P5(b)</strong> The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(a)</strong> The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(b)</strong> The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P6(c)</strong> The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(a)</strong> MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(b)</strong> MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(c)</strong> MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P7(d)</strong> MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
<td>✓</td>
</tr>
<tr>
<td>Research Proposition Under Investigation</td>
<td>Extent of Support Found</td>
</tr>
<tr>
<td>-----------------------------------------</td>
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<tr>
<td><strong>P8(a)</strong> An MNE's headquarter's international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P8(b)</strong> MNEs with a predominantly ethnocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which favor parent country employees.</td>
<td></td>
</tr>
<tr>
<td><strong>P8(c)</strong> MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which are oriented towards host country employees.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P8(d)</strong> MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.</td>
<td></td>
</tr>
<tr>
<td><strong>P9(a)</strong> The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented HR policies and practices.</td>
<td>✓</td>
</tr>
<tr>
<td><strong>P10(a)</strong> MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.</td>
<td>Mixed results</td>
</tr>
<tr>
<td><strong>P10(b)</strong> MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.</td>
<td>✓</td>
</tr>
</tbody>
</table>


Key:

✓: Support found for this proposition

✓: Support found for this proposition

✗: No support found for this proposition

Blank cell: This proposition was not appropriate for investigation in this case study.
through greenfield sites or through majority equity holdings with contractual arrangements for full ownership by Paperco within three to five years. Furthermore, as discussed in the section on exogenous factors earlier in this chapter, Boxco has displayed a number of actions designed to control and minimize risk. The site locations (near small towns) and use of individual employment contracts in the March and Mold facilities provide examples of SIHRM policy and practice aimed to maximize predictability.

Proposition 5(b) suggests that: *The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.* In support of this proposition, it is evident that Boxco currently has quite well-developed HR practices and policies within each national unit, yet recognises the need for more frequent and detailed communication between the European units. Such interaction is anticipated by Boxco management to facilitate efforts for information flow and coordination within the region. At present, it appears that the lack of coordination between national units, given the changes occurring in the EU context, provides Boxco with less than optimal levels of understanding across units.

Boxco's approach also provides support for Proposition 6(a): *The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.* This is shown, for example, in the direct involvement of Paperco corporate headquarters in the German investment, occurring as it did during a period of economic recession. This monitoring continues, as the assignment of expatriate Australians and British managers to the German operations is expected to remain in practice for some time. Short-term monitoring in instances of external risk are also evident in Boxco, as with the example of particular attention and increased contact which were focused upon the French operations during the recent national industrial action.

Acknowledgment of legal and socio-cultural differences firstly between Australia and
the EU locations, and secondly between national European units, has led Boxco to adopt a decentralized and polycentric approach with regard to SIHRM practices, (Brewster & Larsen, 1992). This indicates support for Proposition 6(b): The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.

Emerging awareness, however, of the need to coordinate across the EU operations in order to develop effective management of the external environment of the EU appears to be aimed towards achieving an effective balance between integration and differentiation (Doz & Prahalad, 1991). Hence, while Boxco currently has a decentralized approach in order to be responsive to diverse legal and socio-cultural contexts within the EU, recognition of benefits to be gained from coordination across EU Member States may require increased efforts and resources devoted to integrative SIHRM. Indeed, this prediction would suggest that P6(c): The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions will emerge as an interesting challenge for Boxco in the EU may be a more accurate description of Boxco's requisite position on this issue in the future.

Relationships between endogenous factors and SIHRM are investigated in this thesis through several research propositions. First, Boxco's geographic (regional) divisional structure and the multinational structure within the EU region provide some information relevant to issues raised in the research propositions relating to organizational structure [P7(a) to P7(d)]. It should be recognized that P7(a) to P7(d) refer to alternative organizational structures; as such, only one of these propositions is applicable to Boxco. Hence, the applicable organizational structure must be identified so that the appropriate research proposition may be investigated.

Boxco's geographic divisional structure endeavours to maximize local responsiveness to a region. Within the EU, however, Boxco functions as a multinational structure,
as a result of the decentralization to national units. Hence, the evidence of efforts
directed towards management selection, including expatriate financial controllers,
supports P7(b): *MNEs with a multinational structure will be concerned with SIHRM
issues that primarily focus on the selection of managers who can operate units with
sensitivity to local conditions under autonomous direction.*

A second endogenous factor, that of headquarters international orientation, is
investigated through Propositions 8(a) to 8(d). The predominant headquarters
international orientation of Boxco appears to be a mixture of polycentrism, evidenced
by decentralization of several SIHRM issues, policies and practices, and
regiocentrism, evidenced by some degree of coordination by regional headquarters.
As P8(a) postulates: *An MNE's headquarter's international orientation will impact
the ease of interaction among units such that interaction will be easier in MNEs with
common or geocentric orientations and will be more difficult in MNEs with unique
or polycentric orientations.*

P8(b) to P8(d) refer to alternative headquarters international orientation; as such, only
one of these propositions is applicable to Boxco. The applicable headquarters
international orientation has been identified so that the applicable research proposition
may be investigated. The polycentric orientation evident at Boxco appears to have an
impact on the frequency and likelihood of interaction among units, such that
interaction is somewhat limited between national units, and even more limited between
regional operations. By virtue of the polycentric orientation, there appears to be
several limitations on the extent of inter-unit networking in Boxco (Bartlett &
Ghoshal, 1990; Ghoshal & Bartlett, 1990). Even if inter-unit networking were to be
considered effective within the European region, co-ordination with other geographic
regions seems limited.

Boxco exhibits a predominantly polycentric orientation. In support of Proposition
8(c), this orientation appears to have resulted in strategic IHR policies and practices
which have favoured host country nationals, as P8(c) suggests: *MNEs with a
predominantly polycentric orientation will develop strategic IHR policies and
practices regarding staffing, appraising, compensation and training which are oriented towards host country employees. This is evidenced by the decentralization of SIHRM policies and practices to national or plant level in all instances. The individual employment contracts used at the March and Mold factories exemplify the manner in which Boxco would seek to establish local management of human resource issues. In particular, the considerable variation in compensation practices across units reflects the polycentric orientation.

It is interesting to note, however, that Boxco management would prefer in the long term to see greater consistency in SIHRM practices across units, where feasible. Revision of such SIHRM policies and practices, combined with an increasing use of third country nationals suggest a transition is likely towards a regiocentric (and possibly geocentric) orientation which will endeavour to develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.

With regard to competitive strategy, Boxco is pursuing a combined competitive strategy of high quality and cost reduction, with some, albeit limited, evidence of participative, egalitarian and team-oriented HR policies and practices. This suggests support for P9(a) that: The nature of a unit's competitive strategy will determine, in part, the nature of its HR policies and practices. For example, the compensation policy of maintaining pay levels at or near the top end of a given scale, in order to meet the objectives of attracting, motivating and retaining high quality employees maximizes the strategic objective of high quality. This is balanced, however, by the low labour levels required, due to high levels of automation in Boxco factories, and the emphasis on productivity. A challenge for Boxco, as for many other firms pursuing this combined strategy, is to maximize both competitive objectives without compromising internal consistency. While the generic strategies are not mutually exclusive (Hill, 1988; Schuler & Jackson, 1987), high quality and cost reduction may be argued to be inherently contradictory goals, so a strategy combining these goals is complex and requires careful monitoring.
As key line managers hold responsibility for SIHRM, there could be argued to be some evidence in Boxco that HR policies and practices are integrated with and have an impact on strategic decision making. This would imply a reciprocal relationship between the two areas (Boxall, 1992), rather than a uni-directional, top-down influence (Schuler, 1992). The absence, however, of direct representation of the human resources function at the Paperco corporate management group suggests a lack of strategic integration of SIHRM at the most senior organizational level. As noted earlier in this chapter, in several respects, there is evidence that the relationship, or 'fit' between HR strategy and organizational strategy is not entirely consistent (Lengnick-Hall & Lengnick-Hall, 1988). Some aspects of HR strategy exhibit reciprocity with organizational strategy, particularly evident in the start-up phase of new ventures in greenfield sites. In contrast, other areas show evidence of top-down relationships only. This is particularly evident with respect to succession planning, not only within Boxco, but across Paperco.

The influence of experience in international business of SIHRM is investigated through P10(a), which suggests that: MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands. Boxco have relatively limited experience in international business, despite a great deal of experience as a large player in the domestic Australian market, and a very experienced senior management group. The decentralized, polycentric orientation evident in Boxco's EU operations suggests that Boxco management recognize the need for adjustment to local or regional demands, managed through a degree of autonomy provided to national and regional headquarters and resources for environmental analysis in order to ensure adequate understanding of local environments. This suggests that international business experience alone will not determine the degree of decentralization of SIHRM; this appears to be multifactorial.

It is interesting to consider this issue in combination with P10(b), which suggests that: MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience. Boxco provides
an example of an MNE with relatively limited experience in international business, yet is facing a challenge in managing the transition towards the more complex organizational structure. This transition appears necessary in order for Boxco to effectively manage its expanding international business. This growing complexity in international business is perhaps most evident in examination of Boxco's EU organizational performance throughout the 1990s.

Organizational Performance

An economic boom in the paper industry ended in 1989, and through 1991 and 1992 the industry was in recession; Boxco, however, grew during the recession. Positive results in the United Kingdom were offset by a concurrent downturn in results in France and Germany. In the French plant, the economic recession was reflected in poor results in 1993. Although the French plant is generally an efficient operation, it was underloaded for part of the 1993 period and did not operate with a favourable product mix. The recession in Germany in 1993 had an adverse impact on performance there. By 1993, sales and profits in the United Kingdom were growing steadily, despite pricing pressure which limited scope for margin improvement. The overall result in 1993 was that total operating profits in Europe were lower than they had been in 1992.

In 1994, in general, box prices fell steeply as producers strove to retain market volumes. Lower paper costs initially provided some offset but paper prices have moved strongly upwards, following a global trend. The German organization traded at a loss in 1994, although the organization has sound operating facilities, a strong management team, and is well-positioned in the marketplace. Prospects for the German company became more positive towards December 1994, although further improvement continues to be sought. Total sales in 1994 in the United Kingdom and France rose 6.9% from $A194 million to $A207 million. Profit before interest and tax was similar to 1992-93, reflecting tight economic conditions, the impact of increasing paper prices, and the impact of start-up costs of a new plant in Wales in January 1994.
Total profits in the July-December 1994 half year for the United Kingdom and France showed an increase from the previous year.

In 1995/6, Boxco's plants in the United Kingdom have been achieving the target return on capital. Boxco in 1996 has the same tonnage in Europe in corrugated boxes, as Paperco has in Australia. In the seven years since European operations began, Boxco in Europe has grown to an equal size to the parent company. Furthermore, Paperco operations in Australia are unlikely to experience significant growth, as it currently holds 50 per cent of market share. In contrast, Boxco continues to grow in the EU. The organization holds around 10 per cent of market share in the United Kingdom, 8 per cent in Germany, and 2 per cent in France. There remains the potential for substantial growth in these countries, as well as Eastern Europe and Latin European countries, where future expansion is anticipated.

**Future Developments**

A major strategic issue for Boxco in the EU is that the organization continues to purchase, rather than produce, the paper which is the raw product for corrugated box manufacture. In current circumstances, in times of raw material shortage, as in early 1995, Boxco operations were somewhat exposed to market dangers. This issue is beginning to be addressed, as part of the overall Paperco re-structure.

It is strongly desirable that Paperco integrate its paper and packaging divisions in the EU. Considering that Boxco is now the largest non-integrated user of corrugated boxes in Europe, the organization would gain from being in control of its own raw material. The decision has already been taken that Paperco will integrate the packaging and paper manufacturing. This is evidenced by Mr E.'s dual role, of Director of Boxco and Managing Director of the paper division, a company that has no assets in Europe yet. A search is in progress for a partner or an acquisition for paper manufacturing. As with the first entry to the EU, Paperco is examining all options and resisting a purchase until the market reaches a more stable state.
Summary

Boxco is a large MNE with a wealth of experience and resources in Australia and relatively limited experience in international business. Boxco has withstood environmental turbulence and developed its areas of strengths, to become a major world player in its industry. Boxco appears to have effective awareness and responsiveness to exogenous factors, indeed there is evidence of substantial influence exerted over its environment in the EU. The strategic focus is on high quality and cost reduction, to achieve growth. There is a predominantly polycentric orientation with regard to the EU operations. SIHRM policies have been fairly sophisticated and undergo continual revision. Boxco has maintained strong performance, yet appears to require renewed efforts to refine the 'fit' between exogenous factors, endogenous factors, and SIHRM policies and practices. A major emerging challenge for Boxco in the EU appears to be the need for effective integration of SIHRM issues, functions, policies and practices with other organizational elements (Dyer & Reeves, 1995). In conclusion, there is evidence of interaction and reciprocity between these three areas for Boxco's operations in the EU.
CHAPTER 10.
DISCUSSION AND CONCLUSION

Objectives of this Chapter

This chapter concludes the thesis by presenting the implications of the research findings with regard to the research questions and propositions postulated for this thesis. The chapter provides a discussion of these findings for SIHRM in Australian MNEs operating in the EU, drawing implications across four dimensions. First, implications are drawn with regard to policy analysis and development. Second, implications are drawn with regard to theory development. A revision of the integrative framework of strategic international human resource management is offered. Third, implications are drawn with regard to research methodology and future research. Fourth, implications are drawn for future practice in SIHRM.

Overview of the Thesis

As discussed in previous chapters, there are two broad themes for this thesis: policy analysis and theory development. These themes are addressed through investigation of research questions and propositions with regard to SIHRM in Australian MNEs in the EU. It can be argued that increased awareness of the contextual interplays relevant to SIHRM issues, functions, policies and practices is necessary in order for SIHRM to maximize its contribution to organizational competitiveness.

The contextual approach, with particular regard to the EU social dimension, was identified in Chapter 1 and discussed in considerable detail in Chapters 2 to 4. Hence, these chapters raised issues of policy analysis relevant to Australian MNEs in the EU.
Within this context, this thesis is primarily focused upon the firm as the unit of analysis, with particular regard to implications for theory development relevant to SIHRM (as discussed in Chapter 5). The research methodology (as detailed in Chapter 6) has included processes and factors which are external and internal to a firm, and which are related to SIHRM issues, functions, policies and practices. The empirical research findings have been presented in Chapters 7 to 9.

Analysis of Research Questions

Four related research questions were investigated in this thesis. The research questions relate both to policy analysis and to theory development. The research questions were investigated through a pilot case study, two survey questionnaires, and a major case study of an Australian MNE operating in the EU. The research findings relevant to each research question will now be discussed in turn.

Question 1: Exogenous Factors and Australian Multinational Enterprises

The first research question posed in this thesis is:

*In what ways are environmental factors such as government actions, regional economic activity, and cultural diversity, influential for Australian MNEs operating in the EU?*

The review of the EU historical context, social dimension, and relationship with Australia, in Chapters 2 to 4, indicated that there are historical, current, and future factors which could be expected to be influential for Australian MNEs operating in the EU. In combination, the analyses which have been presented in Chapters 7 to 9 have shown that environmental factors are influential in several ways and present several challenges for Australian MNEs seeking to operate in the EU. Overall, the issues identified in this research cover a spectrum of environmental factors cited in the first research question, including government actions, regional economic activity, cultural diversity, and several additional environmental factors identified in this research.
Government Actions

Government actions at national level (in Australia and EU Member States) and supra-national (EU) levels are most likely to be influential for MNEs in several respects. It is also noted that sub-national (state or provincial) government action may be influential for organizations. An additional consideration for MNEs would be the observance of international labour law (Florkowski & Nath, 1993). For Australian MNEs to effectively respond to and comply with government actions across these various levels, access to a high level of knowledge and awareness of the implications of such actions is required.

To consider national government action first, and Australian government action specifically, as discussed in Chapter 4, the fundamental objective of the Australian government's economic policy is to attain high and sustainable economic growth (Department of Foreign Affairs & Trade, 1994a). International competitiveness is viewed as a major component of this policy. The adoption of more outward-looking Australian government trade policies has supported increased attention paid to international business activity by Australian enterprises (Australian Bureau of Industry Economics, 1995a; Craig & Yetton, 1994; Department of Foreign Affairs and Trade, 1992; Parkin et al., 1994). National trade priorities include the objective of strengthening Australia's position in existing markets such as the EU. An Australian Government priority in the EU is to provide information and support to enhance and facilitate opportunities for Australian enterprises (Department of Foreign Affairs & Trade, 1994a; Hilmer Report, 1993).

In support of previous studies which have investigated the patterns and performance of Australian enterprises in international markets (e.g., Department of Foreign Affairs & Trade, 1995; Marsh, 1994; Yetton et al., 1992), the survey data reported in Chapter 8 shows that the pattern of internationalisation for Australian MNEs has followed trends found in other industrialized nations.
The Paperco/Boxco\textsuperscript{40} case study provides an example which supports the findings of Yetton et al. (1992), that successful Australian international manufacturing enterprises follow a pattern to capitalise on their competitive advantage through multidomestic strategies of producing in the countries of sale (Porter, 1986). Further, as Craig and Yetton (1994) have noted, enterprises such as Paperco/Boxco export "invisibles" such as management systems and proprietary technology.

Australian MNEs operating in the EU must not only deal with transformations taking place in the domestic contextual conditions, but also with the complex and dynamic EU environment. Australian MNEs in the EU face major government actions at both national (EU member State) level and supra-national (EU) levels. An example of EU national level government action can be seen in the decision by the United Kingdom to opt out of the Social Policy Protocol and Agreement appended to the Treaty of Maastricht (Addison & Siebert, 1994, and discussed in Chapter 3). This, and related actions, have facilitated diversity in EU Member States' progression in matters related to the social dimension, thus leading to a "two-speed" or even an "à la carte" social Europe (Bercusson and Van Dijk, 1995; Blanpain & Engels, 1993).

Specific examples of diverse national level government action in the EU are evident in relation to national industrial relations systems (Blanpain, 1992; Szyszczak, 1995). Moreover, as enlargement of the EU continues, difficulty in obtaining convergence amongst diverse national labour laws and industrial relations systems (Bercusson, 1995) is considered likely, recognising that a national industrial relations system forms an integral part of the national cultural identity (Blanpain, 1992; Clarke & Bamber, 1994). While some 'Europeanization' of industrial relations is feasible, through convergence in terms and conditions of employment (Bean 1994), barriers to international industrial relations remain significant and the overall advantage held by MNEs is enduring (Blanpain, 1992). Difficulties are also due to the fragmentation and power structures within national union movements. Differences in economic, social

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\item For ease of reference, the case study analysed in Chapter 9 is referred to throughout this chapter as Paperco/Boxco.
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and legal environments across EU Member States remain formidable (Marginson, 1992; Szyszczak, 1995; Valkenburg & Zoll, 1995).

Challenges for MNEs in the EU are also brought by supra-national government actions. As suggested in the Chemco case, awareness of changes across the European region, at both national and supra-national levels of government action, should contribute to an organization's capacity to effectively operate in the EU. Examples of the influence of EU-level government action have been shown in Chapters 8 and 9. The surveys discussed in Chapter 8 showed that EU bureaucracy was cited as an issue of annoyance or concern. Often associated with frustration with EU bureaucracy, perceived inequities for non-EU enterprises were identified in the surveys. It is recognized, however, that there was little suggestion of perceived inequities in either the Chemco or Paperco/Boxco case studies; inequities may be more of a concern amongst small-to-medium sized enterprises with less power to influence their environment.

For Paperco/Boxco, government action has required reaction and response on the part of management and employees, either by compulsion or on a voluntary basis. For example, Paperco/Boxco's mandated policy for entry to foreign markets endeavours to maximize control by the organization, and protection from risk such as host country government action (Miller, 1993; Sundaram & Black, 1992). This entry mode provides an interesting example for other Australian MNEs seeking investment opportunities commencing through Australian-EU joint ventures.

The Paperco/Boxco case study suggests that legislative requirements at both national and EU levels may have specific influences which vary by industry or product. Box manufacturing, as part of the paper industry, is subject to a range of legislative considerations, requiring organizational actions such as the implementation of policies and practices for the management of environmental responsibilities.

With regard to international labour law, the most important sources are the conventions promulgated by the International Labour Organisation (ILO). Overall,
however, due to weaknesses in international labour norms and the frequent European institutional blockages of proposed norms, the impact of international labour law and organizations such as the ILO on labour law in the EU has been relatively minor (Bercusson, 1995).

Regional economic activity
Regional economic activity was also suggested to be an important influence for Australian MNEs operating in the EU. Competitive intensity has increased in most EU industrial sectors, bringing a multitude of opportunities, challenges and problems for foreign MNEs wishing to operate there, including Australian MNEs (Almor & Hirsch, 1995). Australian MNEs have faced uncertainties in the EU market, such as slow progress in some key areas of regulation (and deregulation).

The EU is at the more sophisticated and complex end of the spectrum of regional formation of international governmental alliances emerging in various forms across all continents. The EU has greater political integration and international co-ordination than is evident with other regional agreements (Delors, 1995; Department of Foreign Affairs & Trade, 1994a; Lloyd, 1995).

Although the impact of the Single European Market varies across industry, many changes have been brought by intensification of competition amongst MNEs (Dischamps, 1993; Holland, 1993). Challenges for Australian MNEs operating in the EU included increased rivalry (based on cost or product specifications), increased buyer power as more options for obtaining goods and services become available, increased power of suppliers, as their distribution network may widen across national borders, and the entry of new competitors to the market (Almor & Hirsch, 1995). This increased competitiveness was evidenced, for example, in the 1994 survey responses (presented in Chapter 8). Furthermore, several respondents linked competitiveness issues with management capabilities, such as acquiring and developing management capabilities to support identified business strategies.
Australian MNEs operating in the EU face challenges such as learning to exploit opportunities for improved productivity. These opportunities include greater efficiencies of production and distribution, simplified enterprises with lower costs, and more unified marketing; meeting the challenge of European, and other foreign MNE competitors, many of whom are themselves expanding and changing; and dealing with customers who are themselves expanding and changing to increase their own efficiency and effectiveness (Almor & Hirsch, 1995; Magee, 1989). As shown in Chapter 9, Paperco/Boxco provides an example of an Australian MNE which has maintained a deliberate strategy to establish a competitive position in its industry in the EU, with a high level of environmental scanning, particularly competitor analysis. Paperco/Boxco is well aware of increasing efforts made by European enterprises towards competitiveness.

The removal of internal trade barriers and integration of national markets in the EU has arguably enhanced opportunities for potential inter-organisational relationships (Elg & Johansson, 1995). For MNEs based outside the EU, the establishment of relationships with local enterprises can be expected to provide significant opportunities. This is suggested, for example, by the increasing incidence of international joint ventures found when comparing 1992 and 1994 survey responses.

*Cultural Diversity*

Cultural diversity was also recognized as an important external influence for Australian MNEs operating in the EU. For example, in the Paperco/Boxco case study, the consistent view of senior managers in the European region is that nationalistic tendencies, particularly in France, and the partial ownership of the French and German operations (until recent acquisitions), have led to the use of a polycentric approach. While Paperco/Boxco has been successful with a polycentric approach during this establishment and growth phase, the organization faces a considerable challenge in attempting to achieve regional coordination across national units with a diversity of markets and cultures.
Other Environmental Factors

Several additional environmental factors were identified in the research findings of the thesis. First, *industry characteristics*, such as competitor behaviour, were identified as important, particularly in the Paperco/Boxco case study presented in Chapter 9. Environmental scanning of competitors' strategies has influenced strategic decision making in Paperco/Boxco. Conversely, Paperco/Boxco's actions, such as their technological developments, have been influential for their competitors in the EU. Second, *firm-specific factors* related to external conditions which were identified in the Paperco/Boxco case study included workforce characteristics such as skill levels and labour costs (Johnston, 1993; Laczniak et al., 1994).

Third, *management challenges* presented by the integration of the EU market were identified as environmental factors. For example, survey responses in 1992 and 1994 referred to several general management issues of EU integration. Overall, the international business and management implications of EU integration are complex and far-reaching. These management challenges include issues such as labour and industrial relations, as will be discussed in more specificity with regard to the third research question. The findings of the present research support the study conducted by Korn/Ferry International/Columbia University (1989), which highlighted awareness amongst managers in the EU of the increasingly turbulent environment brought by European integration. Opportunities and challenges are emerging at supra-national, national and enterprise levels.

A number of these environmental factors fall under the jurisdiction of national or EU legislators. Thus, EU government processes influence SIHRM in direct and indirect ways. With regard to awareness of challenges brought by such factors, there are of course variations in managerial response. The substantial amount of international business experience, combined with long-term presence in the EU, led Chemco management to suggest that longer experience in the EU would correlate positively with organizational performance in the region. Paperco/Boxco management, in contrast, include highly experienced host country nationals, to overcome the 'disadvantage' of having comparatively less international business experience.
To summarize the findings with regard to the first research question, external factors, including legal, political, economic, social, and technological, clearly exercise influence over SIHRM in Australian MNEs. These findings are similar to results of previous Australian research (e.g., Laczniak et al., 1994) which has identified a variety of external influences on Australian MNEs. Current and forthcoming changes in the EU context will continue to hold implications for Australian MNEs in the EU. Of particular importance for Australian MNEs operating in the EU may be the changes wrought by the evolving social dimension, even though Australian MNEs with 13 years of experience with a social democratic federal government in Australia might encounter few surprises in the EU. As discussed in Chapter 4, Australian MNEs have experience with state intervention in industrial matters and with strong trade union presence and activity. The management capability of these MNEs to deal effectively with issues encountered in the EU context, however, remains to be established.

The economic and social impacts of EU integration on participants such as Australian MNEs have varied by industry and target market, although overall they may be seen as representing an external shock requiring an appropriate strategic response. Responses to EU integration by Australian MNEs may be influenced by a variety of factors, such as firm size and strategic objectives, and involve a range of internal functions, including human resource management (Almor & Hirsch, 1995).

Several external factors have been important for Paperco/Boxco in the EU. Each external factor may be influential to the extent of affecting MNE profitability and productivity. Furthermore, Paperco/Boxco has demonstrated capacity to exert influence over at least some EU environmental factors, and to bring about change in its environment as a direct or indirect result of management actions and strategic choices (Purcell and Ahlstrand, 1994: 49).

The findings of this thesis support the view that there is a continuing need for Australian MNEs to engage in more proactive strategic planning and greater involvement in the lobbying process which will enable enterprises to protect and develop their interests (Hodges, 1990). Furthermore, the results support Hodges'
(1990) finding that Australian managers perceive that a key success factor is a strong and sustained local presence in the EU, although the results indicate some lack of awareness in some quarters of Australian business regarding the EU.

**Question 2: The EU Social Dimension and Australian MNEs**

The second research question for this thesis is:

*What will be the implications of the EU Social Dimension for Australian MNEs operating in the European Union?*

There has been substantial discussion in the literature over the impact of the EU social dimension for enterprises, particularly MNEs (Addison & Siebert, 1994; Hendry, 1994a; Marginson & Sisson, 1994; Wood & Peccei, 1990). Opinions will continue to differ as to how much impact the social dimension will have (Addison & Siebert, 1992; 1994). The Maastricht Treaty has established means by which the passage of Directives related to the social dimension into EU law is assured. Continued growth in EU membership is anticipated, bringing increased diversity of members. Recognising the importance of social and industrial systems to the EU, efforts to increase harmonisation in the EU social dimension can be expected to broaden, as was discussed in Chapter 3. The present research provides evidence that Australian MNEs operating in the EU have a range of concerns about possible impacts of the EU social dimension upon their management strategies and practices.

To summarise the outcomes of the Maastricht Social Policy Protocol and Agreement, it is clear that several innovations are evident (Blanpain & Engels, 1993). Within the framework of EU-level mandates established by the Treaty of Maastricht, further legislative development in the social dimension is inevitable. EU social policy will continue to be governed by the Treaty of Maastricht and by the Agreement attached to the Social Protocol, at least until the conclusion of negotiations in the Turin IGC (Commission of the European Communities, 1993b). The insertion of part or all of the Social Charter into the Treaty on European Union is one of the priority objectives of the 1996 Conference (Ellingsen, 1996; *European Union News*, June/July 1995).
The implications for MNEs in the EU, including Australian MNEs, are likely to be wide-ranging and significant.

Overall, the matrix of national laws, collective agreements, practices and procedures which reflect different traditions and cultures across EU Member States forms a substantial platform of social policies in the EU with which Australian MNEs must comply. It is apparent that the impact of the social dimension will vary across Member States (Bercusson & Van Dijk, 1995; Van Peijpe, 1995).

As concluded in Chapter 3, although the supranational labour law which has developed in the EU has had some impact on the employment environment across Member States, the extent of the impact is less than might have been anticipated. Teague and Grahl (1989) cite a number of explanatory factors: Member States' control over the mechanisms by which EU law is adopted into national law; the limitations of EU directives in legal terms; deficiencies in the European Commission's non-compliance procedures; and complexities of several areas of EU labour law. Many European Commission proposals have failed to become ratified; transferring industrial relations practices across national borders is fraught with difficulty.

The Maastricht Social Policy Protocol provides a framework for participation of labour and management in the formulation and application of labour law at both at national and supra-national (EU) levels. The Protocol provides a code for the role of the social partners, namely management and labour, in the development of social policy and European labour law (Bercusson, 1992; Blanpain, 1992; Teague, 1994). However, the composition and strategies of the social partners remain largely unchanged by the Treaty of Maastricht (Addison & Siebert, 1994; Blanpain, 1992).

With regard to the significance to Australian MNEs of the EU social dimension, and particularly the EC Social Charter and Maastricht Agreement and Protocol, the overwhelming response in the 1992 survey reported in Chapter 8 was one of little awareness of significant impact at that stage. These responses were, however, clarified by comments such as: "these issues are covered by EU subsidiaries".
reflecting a decentralized approach to matters such as compliance with EU legislation. By 1994, respondents were much more aware of the impact of the social changes in the EU. Continuing negativity and concern was evident with regard to EU directives and their potential to impact on organizational performance or to intervene in matters seen as related to managerial prerogative.

Relevant to the first and second research questions, this research has identified a number of issues related to future developments in the EU which have implications for Australian MNEs. Many of these issues have particular implications for SIHRM in these MNEs, as will be discussed with regard to the third research question. For example, internal challenges include the principle of subsidiarity (and the implications for areas in which the EU has competence); and the need for dialogue between the social partners at the European level. Characteristics of the workforce also require consideration by Australian MNEs operating in the EU. Such challenges will continue to be influential in the context of the EU social dimension.

The experience of Australian MNEs suggests that external and internal changes have led to developments in HRM over recent years. It appears that a multitude of factors may be influential for HRM strategies which are emerging in Australian enterprises attempting to improve productivity and competitiveness in a turbulent domestic and international environment. It is recognized that many Australian enterprises are in a period of transition and change with respect to management issues, and, more particularly, with respect to HRM issues (Collins, 1994b; Littler et al., 1994). The relationships between the various external factors discussed with regard to research questions 1 and 2, and SIHRM in Australian MNEs, are explored further, in relation to the research propositions [P5(a) to P6(c)], later in this chapter.

Question 3: Issues related to SIHRM for Australian MNEs Operating in the EU

The third research question posed in this thesis is:

*What are seen as the key current and emerging issues related to SIHRM for Australian MNEs operating in the EU?*
Several challenges for MNEs have particular implications for SIHRM. As discussed in previous pages, Australian MNEs in the EU can be expected to be challenged by many factors in the environment, which will influence SIHRM issues, functions, policies and practices. With regard to the EU social dimension, MNEs must utilise appropriate SIHRM strategies and practices, to enhance overall strategies and performance. As Dowling et al. (1994) have suggested, the role of SIHRM is central to international management. Overall, major SIHRM issues confronting MNEs such as Chemco and Paperco/Boxco in the EU are related to the perceived emerging need to address organizational and SIHRM issues in the context of the EU as a single market. For example, major issues in the early 1990s included the influence of the economic recession in the EU and recognition of the cultural and language diversity across the EU.

The present study supports Cascio's (1992) study, which identified SIHRM major issues at the within-enterprise level as: the role of HRM in international operations; managing a culturally diverse workforce; and the development of managerial talent in a global environment. The most important external issues identified by Cascio (1992) included the impact of the social dimension of the European Union.

With respect to SIHRM in the context of the EU, the present research also provides support for the findings of the Korn/Ferry International/Columbia University (1989) study, which found major concerns for European executives pertinent to HRM included the key corporate challenge of the availability of qualified human resources, and a predicted decline in union power.

For Paperco/Boxco in particular, SIHRM current and predicted issues relate to the potential for growth and coordination of operations across regions of the world. As for many MNEs, a key challenge for Paperco/Boxco remains with regard to the achievement of balance between the goal of co-ordination and integration (to "Paperco-ize") and the achievement of local responsiveness through autonomy and decentralization of decision-making to operations in the EU (Bartlett & Ghoshal, 1992).
The EU social dimension has the potential to influence how human resources available within the Member States can best be deployed and encouraged to apply their knowledge and skills as sources of competitive advantage. In the surveys reported in Chapter 8, specific HRM or industrial relations issues were cited as implications of EU integration. For example, the surveys reported in Chapter 8 identified several issues related to SIHRM for Australian MNEs in the EU. First, respondents reported issues of co-ordination and integration in HRM and industrial relations. Second, labour mobility through the EU was a common issue of concern. Third, specific HRM functional issues were raised, including recruitment and selection; fairness in compensation programs; language training, performance-related issues, industrial relations and worker involvement in establishment of terms and conditions, and expatriation within the EU. Cross-cultural issues were also highlighted, as were competitiveness issues specific to SIHRM, including performance-related (cost management) issues. Additional SIHRM concerns for the future included anticipation of superannuation, the need for language skills, and social security costs becoming major issues in the EU. Overall, similar specific HRM issues related to the EU social dimension were also found in the Chemco and Paperco/Boxco case studies.

An example of a specific issue related to SIHRM which was identified in both surveys and case studies is the matter of recruiting and developing human resources, particularly for the management of cross-cultural differences. It appears that Australian MNEs in the EU encountering challenges in recruitment and development will benefit from the implementation of EU measures such as the mutual recognition of professional qualifications and increasing mobility of workers between Member States. Changes in the EU will not only be brought by legislative developments, but also by economic and demographic developments. For example, strategies to facilitate recruitment and employee development may include modification of perquisites and benefit packages to match the increasing number of females in the workforce, or modification of remuneration packages to suit new forms of work, or introduction of more flexible work arrangements. It is interesting to note that such demographic developments appear to have had little impact on Paperco/Boxco's operations in the United Kingdom, as their proportion of female employees is very
low. It seems inevitable that increasing workforce diversity will manifest as an area requiring increasing managerial attention in the future, for Paperco/Boxco and for other Australian MNEs in the EU.

Another issue which emerged consistently across surveys and case studies, and which has major implications for Australian MNEs, is that related to collective bargaining and worker consultation. Although firm-level consultation procedures and collective bargaining are increasing, European collective agreements are still relatively rare. It seems unlikely that Australian MNEs such as Paperco/Boxco, with a multidomestic approach to industrial relations and relatively limited experience with enterprise bargaining in their domestic environment, will be innovators in the development of European collective bargaining and European Works Councils (EWCs). Approaches to collective bargaining appear most likely to remain at the national level, assuming that EU legislation retains its approach of minimum standards and framework rules, allowing for some national variation in implementation (Van Peipje, 1995). Worker participation has emerged as a specific issue in the (lack of) harmonisation of HR management practices and industrial relations in the development of a unified Europe.

As the United Kingdom has not signed the Agreement to the Maastricht Treaty, this Member State is not bound by the EWC directive (94/45) (*European Union News*, October/November, 1994). However, subsidiaries of Paperco/Boxco, and Australian MNEs located in other Member States will be obliged to comply with the directive. Thus, Australian MNEs should consider the range of options available and requirements for collective bargaining in the EU and utilize the strategy most suitable to their circumstances and objectives. Collective agreements at European level can be either a: European company agreement; European industry agreement; European multi-industry wide agreement; or a European multi-regional agreement (Blanpain, 1992). On the side of management, any of these agreements could involve EU-located subsidiaries of Australian MNEs. It would not be necessary to have subsidiaries in every Member State. Further, subsidiaries located outside the EU may or may not be involved in the agreement. Employers' associations or European confederations of employers associations may also be involved.
As noted for Paperco/Boxco's multidomestic approach, the notion of a European social dimension does not dictate a unification of all social and working conditions and benefits. Paperco/Boxco utilizes different industrial relations policies and practices in accordance with national requirements in the United Kingdom, France, and Germany. For example, Paperco/Boxco has individual employment contracts in greenfield United Kingdom factories but not elsewhere. Despite the many steps towards harmonisation already taken as part of European integration, there are still many differences in employment conditions between Member States. One aim of European integration is, however, to mitigate the considerable regional differences in economic development. Another important aim is to establish a system of minimum social conditions which would safeguard the fundamental rights of workers.

Addison and Siebert (1992) have shown that the European Commission mandates often ambitious 'minimum standards' which may be difficult to justify in efficiency terms. For large MNEs such as Chemco and Paperco/Boxco, minimum standards of employment were not found to present a challenge. Similarly, in the surveys of Australian MNEs, including some SMEs from Australia, this did not emerge as an issue, even though it may involve some demands on limited resources. It could be argued that Australian MNEs' experience with a social democratic government would render them likely to meet minimum standards on an international level.

Despite enhanced roles for the social partners introduced by the Treaty of Maastricht, speculation remains with regard to the role of dialogue between the social partners in the promotion of harmonised social standards. For example, Paperco/Boxco has exhibited a multidomestic approach to collective bargaining, and, further, has adopted an independent approach, by refusing to recognize unions or to join an employer association. Paperco/Boxco's approach appears to support the findings of earlier researchers such as Streeck and Schmitter (1991) and Rhodes (1992). While it may be possible that employers will become more accommodating over time, perhaps a more feasible notion is that the most effective role of the European Commission may be to act as a facilitator for management and labour to develop their own enterprise-level agreements (Bean, 1994; Clarke & Bamber, 1994).
In addition to those SIHRM issues already discussed, implications for SIHRM in Australian MNEs are related to a broad range of aspects related to working and living conditions in the EU. These aspects of working conditions are important considerations for all employers and employees. As has been noted, Australian MNEs would be familiar with most of these issues, due to the progressive social democrat federal government in Australia from 1983 to 1996. For example, Paperco/Boxco policies and practices for terms and conditions of work in the greenfield plants in the United Kingdom are comprehensive.

**Question 4: Empirical Evidence of SIHRM in Australian MNEs in the EU**

The fourth research question posed in this thesis is:

*What empirical evidence is there of SIHRM in Australian MNEs operating in the EU?*

**Endogenous Factors**

Factors endogenous to MNEs which are influential for SIHRM include organizational strategy, organizational structure, headquarters international orientation, experience in international business (Schuler et al., 1993). Additional factors were identified in the process of this research: technology, and size (Butler et al., 1991). These endogenous factors are examined in order to investigate the evidence of SIHRM in Australian MNEs in the EU.

*Organizational strategy* was investigated through the case studies. Chemco's corporate strategic emphasis is on innovation through research and development, combined with a focus on high quality customer service (Porter, 1985; Schuler & Jackson, 1987). The Chemco organizational strategy is, more specifically, to combine unit volume increase and reduction of operating costs to gain profit growth and generate cash (Chemco Chairman & CEO, 1995a).
Paperco at corporate level is characterized by a concentrated focus on high quality and service throughout their operations, combined with efforts to reduce costs. The organization is striving to achieve best practice in world markets (Paperco annual report, 1995). Boxco organizational strategy is strongly aligned with the overall corporate strategy of Paperco. Strategic objectives for Boxco within Australia focus on efforts to improve returns on funds employed in Australia through cost reductions and improved quality and service. In Europe, Paperco/Boxco strategic objectives relate to the continued development of businesses in the United Kingdom and efforts to achieve improved results in France and Germany.

In the context of changes and developments in the EU social dimensions, Paperco/Boxco managers and operatives in the EU report a high level of attention to development and revision of organizational strategic issues. In several respects, however, there is evidence in the Paperco/Boxco case study that the relationship, or 'fit' between HR strategy and organizational strategy is less consistent than was found in the Chemco case study (Lengnick-Hall & Lengnick-Hall, 1988). For Paperco/Boxco, some aspects of HR strategy exhibit reciprocity with organizational strategy, particularly evident in the start-up phase of new ventures in greenfield sites. In contrast, other areas, such as succession planning, show evidence of top-down relationships only. Relationships between organizational strategy and SIHRM are also discussed with regard to the relevant research proposition [P9(a)] later in this chapter.

Some investigation of organizational structure was conducted through the surveys, and further investigation was conducted through the case studies. Enterprises operating on an international basis may experience a variety of structural forms, either as evolutionary stages or as types of internationalisation, with increasing degrees of complexity (Doz & Prahalad, 1991; Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1993). With regard to organizational structure and the HR function, a major area of debate has been that regarding organizational centralisation versus decentralisation, and the implications for HRM (Brewster & Larsen, 1992; Brewster & Hegewisch, 1994; Colling & Ferner, 1992). This has been considered in the present research. Relationships between organizational structure and SIHRM are also discussed with
regard to research propositions [P7(a) to P7(d)] later in this chapter.

Chemco has a matrix organization structure. For the European operations, each national subsidiary and each business division has a direct reporting line to the European Regional Director, thus forming the matrix structure by product and country (or sub-region). Hence, in Chemco, the HR function operates as part of the organizational matrix structure, as personnel managers in each European subsidiary report to the general manager in the national subsidiary (the 'geographic' boss), and to Mr P. (the 'functional' boss). At least for Mr P., the Personnel Director - Europe, in practice, the geographic reporting relationship is much stronger than the functional reporting relationship. As noted in Chapter 5, matrix structures may present difficulties related to cumbersome reporting lines and bureaucratic processes (Hill, 1994). For Chemco, some flexibility has been achieved by allowing more emphasis on regional, rather than functional, reporting lines. Chemco management recognize, however, that the matrix structure requires complex international HRM strategies and practices, particularly in regard to staffing the international operations of the company (Bartlett & Ghoshal, 1990; Ghoshal & Bartlett, 1990).

The Australian MNEs (1992 and 1994 surveys, as detailed in Chapter 8) show considerable diversity in the structure of international operations, although the majority use 'traditional', or less complex, structures such as national subsidiaries with local co-ordination of functions, international divisions, and regional headquarters. A noticeable minority use mixed forms of structure, reflecting a more complex approach to international business.

The survey responses also showed that the structure of the HRM function varied, reflecting degrees of centralization and decentralization. In 1992, 66.7% of the Australian MNEs reported the same structure in their HR function as in international operations. In 1994, 76.2% reported the HR structure to be the same as the international structure. These both show more conformity between HR and international operations than did the US MNEs studies by Dowling (1989). This issue is investigated further with regard to the research propositions later in this chapter.

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In the Paperco/Boxco case study, all businesses operate quite independently of Paperco corporate headquarters. There are, however, some Paperco Board members on each of the businesses' boards. Paperco/Boxco operations are organized on a geographic divisional basis, as a result of the narrow product range and a requirement to be responsive to customers in each region. Interestingly, while other Paperco businesses with greater product variety are currently organized on a product divisional basis, they are moving towards geographic regions. The Boxco European regional business headquarters are located in the United Kingdom. The European regional operations are organized into national subsidiaries with local coordination of products, human resources, and functions such as marketing. At present, it is argued that national businesses are best managed by host country nationals. The organization faces a considerable challenge, however, in attempting to achieve regional coordination across national units with a diversity of markets and cultures. As the organization achieves maturity in its EU operations, a greater emphasis on regional co-ordination could be recommended.

The human resource management function in Boxco is represented by the General Manager Human Resources in Australia. For each regional operation outside Australia, the General Manager fulfils the HRM function. This reflects the devolution of the HR function as initiated in the early days of the Managing Director's term in office. This also reflects the devolution of the HR function to line management, as indicated by the absence of direct representation of the human resources function in the Paperco corporate management group.

A range of modes of internationalization are identified in the present research. As discussed in Chapter 5, each mode has different SIHRM implications, which increase in complexity as internationalisation becomes more complex (Dowling et al, 1994). The needs of enterprises operating in international business in each of these forms are diverse yet the demands of international business cannot be met without attention to SIHRM strategies and practices.

In addition to a variety of wholly-owned subsidiaries across businesses, Chemco
operates several international joint ventures. The Australian MNEs surveyed have a variety of modes of internationalization for entry to the EU. In both the 1992 and 1994 groups, wholly-owned operational subsidiaries were the most common type of business, followed by export. This broadly reflects the Australian data regarding dominant forms of internationalization in Australian enterprises, such as the finding by Yetton et al. (1992) that successful Australian international manufacturing enterprises follow a pattern to capitalise on their competitive advantage through multidomestic strategies of producing in their countries of sale.

In support of the survey findings, Paperco/Boxco capitalises on competitive advantage through multidomestic strategies of producing in their countries of sale. For Paperco/Boxco, the mode of internationalization is mandated by the Managing Director to be through greenfield sites or through majority equity holdings with contractual arrangements for full ownership by Paperco within three to five years. Overall, it would appear that international joint ventures and wholly-owned direct investment are the dominant form of market entry in the EU for Australian MNEs. Generally, it appears that MNEs would prefer to enter through foreign direct investment, but are constrained by factors such as size and lack of international experience. This supports research such as that by Agarwal and Ramaswami (1992), which suggested that MNEs are likely to use direct investment modes in high potential markets such as the EU. Also, small, less experienced MNEs may prefer joint ventures in high potential markets, due to lower apparent exposure to risks.

Whatever the internationalization mode, the establishment period can be expected to be unstable, as it involves a learning period. As Paperco/Boxco found, new ventures may take longer to stabilise than either international joint ventures or acquisitions. So, all ventures were measured after two years at least. Their more recent performance, however, suggests that the new venture mode outperforms the joint venture mode, which in turn outperforms the acquisition mode. These findings support research such as that by Woodcock et al., (1994), which has shown that modes of internationalization are related to organizational performance, and that not all modes have the same chances for high performance.
An MNE’s *headquarters international orientation* (Chakravarthy & Perlmutter, 1985), has been suggested to determine, among other organizational elements, SIHRM functions, policies and practices. One example of this is seen with regard to local unit staffing, which may be categorised as *ethnocentric, polycentric, regiocentric* or *geocentric* (Chakravarthy & Perlmutter, 1985; Heenan & Perlmutter, 1979). An MNE may use any ‘mix’ of these approaches, whether deliberate or ad hoc (Ondrack, 1985; Welch, 1994). The extent to which each approach is utilised within the MNE is influenced by both exogenous factors and endogenous factors, and holds implications for SIHRM, as will be discussed further with regard to the research propositions [P8(a) to P8(d)], later in this chapter.

The predominant headquarters international orientation of Chemco appears to be a mixture of ethnocentrism, evidenced by centralization of several SIHRM issues, policies and practices; and regiocentrism, evidenced by some degree of autonomy granted to regional headquarters. Several elements of an ethnocentric orientation are prominent at Chemco. There is, however, evidence of policy revision and a trend away from ethnocentric practices, towards a geocentric orientation towards SIHRM policies and practices.

The predominant headquarters international orientation of Paperco/Boxco appears to be a mixture of polycentrism, evidenced by decentralization of several SIHRM issues, policies and practices, with some degree of regiocentrism evident in efforts towards coordination by regional headquarters. The polycentric orientation is reflected in, for example, the considerable variation in compensation practices across units. The polycentric orientation is supported by decentralization of SIHRM policies and practices to national or plant level in all instances.

It is important to note that Paperco/Boxco management would prefer in the long term to see greater consistency in SIHRM practices across units, where feasible. Revision of such SIHRM policies and practices, combined with an increasing use of third country nationals in the EU, suggests a transition is likely towards a more regiocentric orientation to SIHRM policies and practices. As the organization achieves maturity
in its EU operations, a greater emphasis on regiocentrism may provide more potential for requisite coordination (Chakravarthy & Perlmutter, 1985). There is, however, considerable doubt as to whether Paperco/Boxco management fully appreciate the challenges and management imperatives inherent in such regiocentric development, let alone any movement towards geocentrism.

This doubt is based partially on evidence that there is some degree of ethnocentrism in Paperco/Boxco. For example, Paperco/Boxco's polycentric approach excludes the key finance position: this will remain a position for appointees from Australian corporate headquarters only. Also, while the use of Australian expatriates is evident in Paperco/Boxco, it is less likely for host or third country nationals to be brought to the parent country (Australia). Such practices will become increasingly difficult to justify as the EU operations mature. The German operations are of particular interest, as they present a major challenge for Paperco/Boxco. The staffing orientation there is quite ethnocentric, with key positions held by parent country nationals or British nationals. Evidence of this ethnocentrism is provided by the fact that the investment was instigated by, and continues to have direct involvement of, Paperco corporate management from Australia, to a greater extent than Paperco/Boxco regional management located in the United Kingdom. A major factor in the ethnocentrism in the German operations is the continuing poor performance in Germany. While a strong corporate presence and 'tight' control may be necessary in this critical stage of management development in the German operations, there are several negative consequences inherent in this approach. First, the separation of this operation from other EU operations appears to hinder efforts for coordination across the region. Second, dissatisfaction amongst German host country managers may be caused by an apparent lack of potential for career progression into key positions. Overall, in support of previous research (Banai, 1992; Caligiuri & Stroh, 1995; Kopp, 1994), elements of ethnocentrism in Paperco/Boxco appear to be causing several problems.

It is important to note that Paperco/Boxco is not alone in the use of ethnocentric staffing practices. In the survey responses, the consistent use of Australian expatriates is evident, and it is less likely for MNEs to bring host or third country nationals to
Australia, reflecting an overall tendency toward an ethnocentric approach to staffing. This may be determined to some extent by the relative lack of complexity in Australian MNE structures. Continuing developments in international business operations will, however, require progression away from ethnocentrism. Such progression is required for Australian MNEs to avoid the disadvantages which have been evidenced in previous research to be experienced by MNEs utilizing ethnocentric approaches (Banai, 1992; Caligiuri & Stroh, 1995; Kopp, 1994).

Also identified as an important factor influencing SIHRM was MNE experience in international business. As noted in Chapter 5, such experience may be connected with the MNE's stage of life-cycle (Dowling & Schuler, 1990; Tichy et al., 1982). For example, Chemco's substantial amount of international business experience, combined with long-term presence in the EU, led management to suggest that longer experience in the EU would correlate positively with organizational performance in the region. Paperco/Boxco management, in contrast, include highly experienced host country nationals, to overcome the 'disadvantage' of having comparatively less organizational experience in international business experience. This relationship between international business experience and SIHRM is investigated further with regard to research propositions [P10(a) and P10(b)] later in this chapter.

In addition to the endogenous factors identified by Schuler et al. (1993) and tested in this thesis, several other endogenous factors have emerged as worthy of consideration in this research. These are technology and enterprise size. These factors have been identified in extant literature as important for HRM, but were not incorporated into the integrative framework for SIHRM presented by Schuler et al. (1993) and have received little attention with regard to their relationships with SIHRM.

An endogenous factor which emerged in the present research, in the Paperco/Boxco case study, was the influence of technology. Technology includes equipment and knowledge used to produce goods and services, and requires integration with HRM. For example, the introduction of new technology has implications for HRM functions and activities such as the design of jobs and training requirements (Lloyd &
Rawlinson, 1992). As Yetton et al. (1992) have noted, enterprises such as Paperco export "invisibles" such as management systems and proprietary technology. Hence, the expatriation of technical specialists is an important aspect of Paperco/Boxco's approach to the EU. This provides an interesting example for other Australian MNEs also seeking to export such technology.

With regard to production technology, Paperco/Boxco also provides an example of the competitive possibilities of technology, as the March factory and subsequent manufacturing sites in the United Kingdom have "state-of-the-art" technology which differentiates them from their competitors. Throughout Europe, Boxco uses the same type of corrugating machine, designed in collaboration with Mr E., Boxco engineers, and the Japanese organization which manufactures and supplies the machinery. These corrugating machines, in combination with other advanced technology used by Boxco provides the organization with a technological advantage over all other competitors in the EU market. Competitors in the United Kingdom industry have attempted to follow Boxco's approach to in-line processes, but have been hampered by their extant technology and history. It is recognized, however, that one common criticism of many of these competitors is that they have focused solely on purchasing equipment, without realising that a holistic approach, including a change of organizational culture, will provided more effective productivity outcomes. Paperco/Boxco productivity compares favourably with competitors in the United Kingdom, due largely to the Paperco/Boxco approach comprising low labour levels, high productivity, and sophisticated technology with computer-based equipment. It is noteworthy that outcomes in human resource terms are generally positive for Paperco/Boxco's EU operations. Absenteeism has consistently been very low and employee turnover is negligible. These outcomes are viewed as of critical importance for Boxco, as in highly automated factories with quite low staffing levels, any absences have a noticeable impact on productivity.

*Enterprise size* also may have an important influence on HRM functions and activities (Huselid, 1993). For example, larger enterprises are more likely to have developed internal labour markets which facilitate development and promotion of employees.
In contrast, smaller enterprises may need to rely more on the external labour market to recruit new employees (Schuler et al., 1992a). Chemco is a large U.S. MNE (with over 12,000 employees), and Paperco/Boxco is very large in the Australian context (with around 25,000 employees). Both MNEs operate large internal labour markets in addition to their active participation in their respective external labour markets. The surveys, however, included MNEs ranging in terms of employee numbers. For example, the 1994 respondents reported employee numbers ranging from 8 to 49,600 (with a median of 1,150). Hence, the survey responses included several concerns more representative of small to medium enterprises with regard to their ability to compete in complex and difficult markets such as the EU. Specific concerns included difficulties in recruiting managers with the cross-cultural competencies required for the EU context. While such concerns are also found in the larger firms, their greater resources and higher profile in the community appear to provide considerable advantage.

It should perhaps be noted that, following Jackson and Schuler (1995: 238), organizational culture is treated as "inextricably bound to HRM and therefore not meaningful if separated from it". HRM functions and activities display and reinforce an enterprise's culture (Schuler et al., 1992a). Strongly influenced by top management, organizational culture identifies the value of people to the enterprise, the assumptions made about people, and the ways in which they are to be treated (Ogbonna, 1993). Thus, culture will be reflected in the enterprise's HR practices.

Strategic International Human Resource Management Issues, Functions, Policies and Practices
As has been discussed throughout this thesis, SIHRM issues address an MNE's needs and challenges, both interunit and within unit (Schuler et al., 1993). Decisions relating to levels of control, autonomy, and local responsiveness are seen as central to the integrative framework, as these decisions are often facilitated by SIHRM functions, policies and practices.
As detailed in Chapter 5, SIHRM functions reflect those functions already noted for domestic HRM: planning for human resource needs; recruitment and selection of employees; performance appraisal and reward management; improvement of the quality of work life and work environment, and employee development; and establishment and maintenance of effective working relationships (Dowling et al., 1994; Dowling & Welch, 1988; Schuler et al., 1992a). These functions require attention for all MNE employees, and are gaining recognition amongst Australian management as challenges requiring attention. To date, Australian evidence of a strategic approach to HRM, or SIHRM, in practice has been scant. In the research field of SIHRM, these functions have received particular attention with respect to expatriate management (De Cieri et al., 1996; Ferner, 1994).

Investigation of Chemco's approach to SIHRM in the European Region provided preliminary indication of several issues relevant to SIHRM for Australian MNEs operating in the EU. With regard to overall HRM issues at Chemco, interviewees were aware of the Korn/Ferry International/Columbia University (1989) report (cited in Chapter 4). This report proved to be a useful benchmark for FIRM at Chemco. Evidence indicated that Chemco are proficient in almost all areas identified in the Korn/Ferry International/Columbia University (1989) report as desirable HRM steps. One specific area was highlighted at Chemco as in need of attention: the identification of critical areas of organizational deficiency and recruitment of executives who can pre-empt and correct these weaknesses. Expatriate management at Chemco also requires attention and improvement. There is a tendency towards ethnocentrism, with dominant use of parent country nationals, and expatriation policy being controlled by corporate headquarters in the USA. Revision of expatriate management policies is directed towards improving their effective outcomes for individuals and the organization, and achieving a geocentric orientation.

In contrast with the findings of SIHRM in Chemco, the present research involving Australian MNEs, found that these enterprises are, overall, yet to act on all of the recommendations included in the Korn/Ferry International/Columbia University (1989) report, or recommendations offered by recent HRM literature. While
European demographic changes and emerging problems (Commission of the European Communities, 1994b) are well-recognized by Australian MNEs as challenges, investment in training and development of employees could be improved. For example, there is limited evidence of substantial investment in recruitment, training and development (Smith, 1993). In particular, there remains a great deal of scope for managers seen as 'high-potential performers' to be systematically developed, with functional rotations and movements across business units. Long-term compensation programs that encourage and reward achievement of corporate goals are still under design (O'Neill, 1995a, 1995b). It appears evident that succession planning is generally poorly developed in Australian MNEs (Kane et al., 1994). In the survey responses, evidence of formalization of SIHRM activities was somewhat inconsistent. For example, 16.6% of 1992 MNEs; and 23.8% of 1994 MNEs reported a well-developed HR planning process (with no significant difference between 1992 and 1994 responses). These results correspond with HR planning levels in Australian firms studies by Kane and Stanton (1991). Another consistent area of weakness is seen with regard to an MNE's ability to identify, evaluate and act upon organizational deficiencies. This is shown, for example, in the repeated measures sub-sample which responded to surveys in 1992 and 1994. The failure to achieve implementation by 1994 of HR programs which were in development in 1992, indicates that good intentions are not being transformed into actions.

With particular regard to expatriate management, the findings of the present research support extant Australian empirical research (Davidson and Kinzel, 1995; Dowling & Welch, 1988). In support of the recent survey of Australian MNEs by Davidson and Kinzel (1995), the surveys in this thesis showed wide variability in practices. Furthermore, as Dowling and Welch (1988) found in their case studies, the expatriate management policies identified in the Paperco/Boxco case study showed incorporation of several features to benefit individual and organizational goals, yet there remains considerable room for improvement. Expatriation therefore forms an important international HRM activity in Boxco. Paperco/Boxco management appear to have taken a narrow perspective of the strategic implications of expatriation. Perhaps inadequate attention has been paid to the longer term organizational effects of
expatriation or whether the current approach is sustainable. Overall, with particular regard to expatriation, a major challenge relates to the development of comprehensive expatriate management policies and practices which are integrated across the phases of the expatriate management process. Such policies are requisite for the effective attraction, retention and motivation of skilled and competent individuals, whether parent, host, or third country nationals.

Effective SIHRM also entails the establishment and maintenance of effective industrial relations and working relationships with employees and trade unions (Clark & Bamber, 1994; Enderwick, 1984; Marginson, 1992; Marginson & Sisson, 1994; Martinez Lucio & Weston, 1994). As noted with regard to the third research question, for non-managerial employees, who are more likely to be local and national in their focus, there are complex implications flowing from MNE strategies (Boxall, 1992; Ferner, 1994). These issues have been investigated in this thesis through the Paperco/Boxco case study.

In contrast with Bean's (1994) observation that some MNEs have attempted to export domestic industrial relations policies, Paperco/Boxco has recognised the 'tougher industrial relations' climate in Australia, and has achieved more managerial prerogative in the EU than has been realised in their parent country. In Britain, Paperco/Boxco has refused to join employer associations and refused to recognize unions. In support of the findings of previous research (e.g. Lansbury & Niland, 1994; Purcell et al., 1987, cited in Bean, 1994), Paperco/Boxco in the United Kingdom has preferred single-employer bargaining rather than involving an employer association, and is more likely than British competitor firms to assert managerial prerogative on matters of labour utilization [evidenced by the presence and activities of trade unions in British competitors of Paperco/Boxco]. Although Martinez Lucio and Weston (1994) have argued that more geocentric MNEs will bear more influence on host country industrial relations systems, due to their propensity to act as agents of social change and increased participation in local circumstances, the absence of geocentrism amongst the Australian MNEs researched for the present study prevents this issue from being investigated here. MNEs such as Paperco/Boxco can clearly be
viewed as strategic actors in the internationalization of industrial relations, as they seek to manage and negotiate with labour on issues which cross national borders. It seems, however, highly unlikely that these Australian MNEs have had a definitive impact on a national (or supra-national) industrial relations system in the EU. Perhaps size and bargaining power, correlated with geocentrism, are required for demonstrable impact to be a possibility.

For Australian MNEs, foreign subsidiary operations may represent a major part of their total business, due to the small domestic market. For example, approximately 70 per cent of Paperco/Boxco's production capacity is located outside Australia. More specifically, Paperco/Boxco's European operations have a production capacity of almost the same amount as the Australian and New Zealand operations, thus representing one third of total production capacity. This may be one reason for the firm's efforts in adaptation to EU host-country institutions.

Paperco/Boxco's decision to intervene directly in the German operations is interesting in the light of research which suggests that the propensity of MNE headquarters to intervene in matters such as industrial relations in host locations is influenced by several factors. Greater intervention would be expected when the subsidiary is of key strategic importance to the MNE, the MNE has less experience in international business, the MNE has less product/service diversification, and the subsidiary is young (Enderwick, 1982a; Bean, 1994). All four of these factors are evidenced at Paperco/Boxco in Europe, particularly in Germany (Gilchrist, 1996b; Wood, 1996). Comparing US and European MNEs, Hyman and Ferner (1992b in Bean, 1994) suggest the latter have a looser relationship between headquarters and subsidiaries, and a greater willingness to accept local managers' judgments. Overall, this seems to be applicable to Australian MNEs in the surveys, and to Paperco/Boxco (notwithstanding involvement in the German operations).

Paperco/Boxco has adopted a practice of multiple sourcing of products across different countries. This may present threats, real or perceived, to reorganize production factors internationally, with the accompanying risk of plant closure or
rationalization, thus having a major impact on management-labour negotiations at a national level (Bean, 1994). It is recognized that technical and economic investments in each EU Member State would reduce Paperco/Boxco's propensity to relocate facilities, although temporary switching of production in order to defeat industrial action is perhaps more feasible (Bean, 1994).

As noted in Chapter 9, MNEs such as Paperco/Boxco conduct comparisons of performance data across MNE national units which creates the potential for decisions on issues such as unit location, capital investment, and rationalization of production capacity. While there is no evidence of coercion, it may be possible for such data to be used to extract concessions from local workforces (Allen, 1993; Martinez Lucio & Weston, 1994). As suggested by Marginson et al. (1995), the use of comparisons would be expected to be greatest where MNE units in different countries undertake similar operations, as is the case for Paperco/Boxco.

While recognizing the threat which MNEs may pose to trade unions, there are also considerable constraints upon actions available to any MNE. As noted in Chapter 9, the German works council system and worker representation on company boards offers some protection against Paperco/Boxco management actions (Bean, 1994). Greater legal prescription of industrial relations in Germany suggests Paperco/Boxco's preferred approach to industrial relations might present fewer threats to unions there than in the United Kingdom. An additional constraint on the behaviour of MNEs such as Chemco and Paperco/Boxco is their high visibility (Botan, 1992), which makes them sensitive to public opinion. This has been utilized by unions when endeavouring to gain recognition at Paperco/Boxco's plants in the United Kingdom. The strategies utilized by Paperco/Boxco with regard to industrial relations, and the challenges which have been encountered by this MNE, provide several examples for other Australian MNEs considering their industrial relations options in entering the EU market.

Overall, it is argued that MNE senior management need to recognise the strategic importance of SIHRM. Top management support is necessary to ensure adequate planning and preparation for expatriate assignments, and accurate forecasts of staffing
needs throughout the MNE network (Davidson & Kinzel, 1995; Kobrin, 1994). In fact, an issue of growing importance in SIHRM is the role expatriation will play as the MNE's international operations and staffing approaches evolve. This issue is particularly pertinent to Chemco and Paperco/Boxco, as their use of parent country nationals in expatriate roles may represent a short-sighted and potentially dangerous practice. SIHRM functions, policies and practices are inter-related; that is, the way in which one activity is done often influences the way in which another is done (Dyer & Reeves, 1995). Further, there are several goals and outcomes for the MNE with regard to SIHRM.

MNE Concerns and Goals
Previous research (Dowling et al., 1994; Kobrin, 1994; Sundaram & Black, 1992) has consistently indicated that MNEs will gain by utilising and integrating appropriate SIHRM strategies and practices, to enhance overall strategies and performance. These organizational characteristics are suggested in the present research to be linked not only to the SIHRM strategies and practices, but also with organizational strategy and enterprise performance, or 'bottom-line'. Schuler et al. (1993) identified typical MNE goals as including: competitiveness, efficiency, local responsiveness, flexibility, and learning and transfer. It is acknowledged that these concerns and goals will vary across specific MNEs (Bartlett & Ghoshal, 1992; Porter, 1986, 1990).

To consider organizational outcomes and performance, Paperco/Boxco provides an interesting example. It is pertinent to note that, in May 1996, Paperco/Boxco's share price dropped more than 4 per cent after the company reported that annual net profits would fall below the previous year's level. Other companies in the paper industry have also reported difficulties due to changing paper prices. Paperco/Boxco's difficulties are exacerbated, however, by problems related to the German operations: the underperforming German economy, the introduction of a shorter working week which has increased unit labour costs, and price reductions forced by competitors seeking to hold market shares (Wood, 1996). Although the German operations have defied management predictions and continue to lose money, the Managing Director has
reported that Paperco/Boxco remains committed to retaining these operations (Gilchrist, 1996b). It could be speculated that the apparent flaws in the approach taken by Paperco/Boxco towards the German operations have contributed towards these outcomes for the organization.

Analysis of Research Propositions

For the purposes of this thesis, 16 propositions generated by Schuler et al. (1993) were identified as applicable to the present research, and were selected for investigation in this thesis. These are shown in Table 10.1. The research propositions relate both to policy analysis and to theory development. Investigation of these selected propositions provided some testing of the general conceptualised relationships important in SIHRM.

This thesis investigated five propositions which deal with the implications of exogenous factors for SIHRM. P5(a) and P5(b) discuss the MNE's behaviour as a response to the extent and pace of change in the environment. P6(a) to P6(c) discuss the implications of political and economic risk, legal and socio-cultural differences for SIHRM policies and practices. As shown earlier (in Chapters 6, 7, 8 and 9), the propositions dealing with the implications of the exogenous variables [P5(a) and P5(b)] were investigated through surveys and case studies.

P5(a) and P5(b) were supported in the 1992 and 1994 surveys discussed in Chapter 8. The survey responses indicated that the perception of change in the host environment of the EU has, at the very least, led to some awareness amongst respondents of implications for SIHRM and the need for managerial action which

As stated in Chapter 1, this thesis has research questions numbered 1 to 4. As the propositions selected for investigation in this thesis begin with P5(a), the original numbering of research propositions provided by Schuler et al. (1993) has been retained. Hence, the numbering of research propositions shown in this thesis matches the numbering used by Schuler et al. (1993). It should be noted that P9(b) and P9(c) are not included in this thesis investigation.
would serve purposes of control and co-ordination.

P5(a) and P5(b) were also supported in the Chemco case study (Chapter 7) and in the Paperco/Boxco case study (Chapter 9). With regard to P5(a), the political and economic changes occurring within and around the industry in the EU are recognized by senior managers as rapid, intensive, and of global significance. Chemco and Paperco/Boxco have responded to such changes with strategic actions aimed to control and minimize risk, and maximize predictability. This is exemplified by adherence to the mandated internationalization mode for Paperco/Boxco businesses through greenfield sites or through majority equity holdings with contractual arrangements for full ownership by Paperco/Boxco within three to five years. Furthermore, Paperco/Boxco has displayed a number of actions designed to control and minimize risk. The site locations (near small towns) and use of individual employment contracts in the March and Mold facilities in the United Kingdom provide examples of SIHRM policy and practice aimed to maximize predictability.

With regard to P5(b), an example of support is shown by the evidence that both Chemco and Paperco/Boxco currently has quite well-developed HR practices and policies within each national unit, yet recognises the need for more frequent and detailed communication between the European units. Such interaction is anticipated by Paperco/Boxco management to facilitate efforts for information flow and coordination within the region. At present, it appears that the lack of coordination between national units, given the changes occurring in the EU context, provides Paperco/Boxco with less than optimal levels of understanding across units.

Propositions dealing with legal and socio-cultural differences [P6(a) to P6(c)] were investigated through case studies only (not through surveys). This approach was appropriate as specific and detailed information was required to measure the relationship between such complex exogenous variables and SIHRM activities.
<table>
<thead>
<tr>
<th>Research Proposition Under Investigation</th>
<th>Extent of Support Found</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Chemco 1992 Survey 1994 Survey Paperco/Boxco</td>
</tr>
<tr>
<td>P5(a) The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td>P5(b) The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.</td>
<td>✓ ✓ ✓ ✓</td>
</tr>
<tr>
<td>P6(a) The higher the level of political and economic risk, the more likely the MNE is to monitor the activities of the units through SIHRM policies and practices.</td>
<td>✓ ✓ ✓</td>
</tr>
<tr>
<td>P6(b) The greater the legal differences and socio-cultural differences, the more likely MNEs will permit the development of SIHRM practices that are unique and adapted to the local interests and diversity.</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>P6(c) The greater the legal differences and socio-cultural differences under conditions where MNEs benefit from coordinating their units, the greater will be the resources devoted to integrative HR policies, practices and functions.</td>
<td>✓</td>
</tr>
<tr>
<td>P7(a) MNEs with an international division structure will be concerned with a singular SIHRM issue, that of selecting the top manager.</td>
<td>n.s. ✓</td>
</tr>
<tr>
<td>P7(b) MNEs with a multinational structure will be concerned with SIHRM issues that primarily focus on the selection of managers who can operate units with sensitivity to local conditions under autonomous direction.</td>
<td>n.s. ✓ ✓</td>
</tr>
<tr>
<td>P7(c) MNEs with a global structure will be concerned with SIHRM issues that primarily focus on selection of managers who are concerned about global operations operating under centralized control and direction.</td>
<td>n.s. ✓</td>
</tr>
<tr>
<td>P7(d) MNEs with a transnational structure will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and global perspectives.</td>
<td>✓ n.s. ✓</td>
</tr>
<tr>
<td>Research Proposition Under Investigation</td>
<td>Extent of Support Found</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td></td>
<td>Chemco</td>
</tr>
<tr>
<td>P8(a) An MNE's headquarter's international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations.</td>
<td>✓</td>
</tr>
<tr>
<td>P8(b) MNEs with a predominantly ethnocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which favor parent country employees.</td>
<td>✓</td>
</tr>
<tr>
<td>P8(c) MNEs with a predominantly polycentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which are oriented towards host country employees.</td>
<td></td>
</tr>
<tr>
<td>P8(d) MNEs with a predominantly geocentric orientation will develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality.</td>
<td></td>
</tr>
<tr>
<td>P9(a) The nature of a unit’s competitive strategy will determine, in part, the nature of its HR policies and practices. For example, a unit pursuing a quality enhancement competitive strategy will be more likely than a unit pursuing a cost reduction strategy to have participative, egalitarian and team-oriented HR policies and practices.</td>
<td>✓</td>
</tr>
<tr>
<td>P10(a) MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.</td>
<td>✓</td>
</tr>
<tr>
<td>P10(b) MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.</td>
<td>✓</td>
</tr>
</tbody>
</table>


**Key:** ✓: Support found for this proposition; X: No support found for this proposition; n.s.: Non-significant support found for this proposition. Blank cell: This proposition was not appropriate for investigation in this case/survey.
Chemco has responded to environmental changes in the EU with strategic actions aimed to control and minimize risk, and maximize predictability. Chemco's approach provides support for P6(a). This is shown, for example, in their ownership patterns, including international joint ventures in less predictable national environments (Hendry, 1994b). Support for Proposition 6(a) is also found in the Paperco/Boxco case study reported in Chapter 9. This is shown, for example, in the direct involvement of Paperco/Boxco corporate headquarters in the German investment, occurring as it did during a period of economic recession. This monitoring continues, as the assignment of expatriate Australians and British managers to the German operations is expected to remain in practice for some time.

Support for P6(b) is shown by the recognition of legal and socio-cultural differences firstly between the US headquarters, and then between national European units, which has led Chemco to adopt a decentralized approach with regard to SIHRM practices (Brewster & Larsen, 1992). Similarly, in the Paperco/Boxco case study, it is shown that Paperco/Boxco has adopted a decentralized and polycentric approach with regard to SIHRM practices.

There were insufficient data in the Chemco case study to comment on P6(c). Emerging awareness in Paperco/Boxco, however, of the need to coordinate across the EU operations in order to develop effective management of the external environment of the EU appears to be aimed towards achieving an effective balance between integration and differentiation (Doz, 1987; Doz & Prahalad, 1991). Hence, while Paperco/Boxco currently has a decentralized approach in order to be responsive to diverse legal and socio-cultural contexts within the EU, recognition of benefits to be gained from coordination across EU Member States may require increased efforts and resources devoted to integrative SIHRM. Indeed, this prediction would suggest that P6(c) may be a more accurate description of Paperco/Boxco's position on this issue in the future.

Schuler et al. (1993) presented 10 propositions which deal with the implications of endogenous factors for SIHRM. The relationships between endogenous factors and
SIHRM are investigated in this thesis through these research propositions. P7(a) to P7(d) discuss the implications of MNE organizational structure for SIHRM policies and practices. Initial investigation of organizational structure was conducted through the 1992 and 1994 surveys. Although the relationship between complexity of organizational structure and the implementation of formalized SIHRM policies showed a positive trend in both 1992 and 1994 survey responses, it was significant only in 1994. This suggests more focused attention to SIHRM issues such as expatriate selection in simpler MNE structures, and broader attention to SIHRM policies which facilitate global coordination and local responsiveness in more complex MNE structures. Thus, the surveys provided initial support for P7(a) to P7(d).

The relationships between structure and SIHRM, as described in these propositions, were further investigated through the case studies, as specific and detailed information was required to investigate the relationship between this relatively complex endogenous variable and SIHRM activities. It should be recognized that P7(a) to P7(d) refer to alternative organizational structures; as such, only one of these propositions was applicable for each case study organization. For each case study, the applicable organizational structure was identified so that the appropriate research proposition could be investigated.

Chemco's matrix structure provides some information relevant to issues raised in the research propositions relating to organizational structure [P7(a) to P7(d)]. A matrix structure would be classified as a transnational structure, as it endeavours to combine local responsiveness (through reporting to a regional boss) and global co-ordination (through reporting to a functional boss). Thus, P7(d) is the proposition most applicable to, and supported by, the Chemco case study with respect to organizational structure. There appears to be some limitation however, on the extent of inter-unit networking in Chemco (Bartlett & Ghoshal, 1990; Ghoshal & Bartlett, 1990). While inter-unit networking appears to be effective within the European region, co-ordination with other geographic regions seems limited.

Paperco/Boxco's geographic (regional) divisional structure and the multinational
(multidomestic) structure within the EU region provide some information relevant to issues raised in the research propositions relating to organizational structure. Paperco/Boxco's geographic divisional structure endeavours to maximize local responsiveness to a region. Within the EU, however, Paperco/Boxco functions as a multinational structure, as a result of the decentralization to national units. There is evidence of efforts directed towards management selection, including expatriate financial controllers. Thus, P7(b) is the proposition most applicable to, and supported by, the Paperco/Boxco case study with respect to organizational structure.

As noted in Chapter 8, the majority of the Australian MNEs surveyed utilised "first-generation" structures, rather than developing across the spectrum of types of international structure. Given recent evidence of restructuring activity amongst Australian, and international, enterprises (for example, Limerick & Cunnington, 1993), and the prevailing ethic of flexibility as a pre-requisite for international competitiveness, structural issues are likely to present challenges for many of these MNEs. Implications for SIHRM would be expected to include a lack of fit between requirements of the dynamic external environment and the lack of flexibility afforded by first generation organizational structures.

P8(a) to P8(d) discuss the implications of headquarters international orientation, for SIHRM policies and practices. P8(a) postulates that an MNE's headquarters international orientation will impact the ease of interaction among units such that interaction will be easier in MNEs with common or geocentric orientations and will be more difficult in MNEs with unique or polycentric orientations. P8(b) to P8(d) refer to alternative headquarters international orientation; as such, only one of these propositions was applicable for each case study organization. For each case study, the applicable headquarters international orientation was identified so that the applicable research proposition could be investigated. These propositions were investigated through case studies (not through surveys), as specific and detailed information was required to investigate the relationship between this relatively complex endogenous variable and SIHRM activities.
As discussed earlier, Chemco headquarters international orientation appears to be predominantly ethnocentric, with some evidence of regiocentrism. In support of P8(a), the mixed orientation evident at Chemco appears to have an impact on the frequency and likelihood of interaction among units, such that interaction is easier within the region than across regions (or between the region and headquarters).

As several elements of an ethnocentric orientation are prominent at Chemco, P8(b) is the proposition most applicable to the Chemco case study with respect to international orientation. In support of P8(b), this orientation appears to have resulted in strategic IHR policies and practices which, at least in the past, have favoured parent country nationals. Evidence of policy revision and a trend away from these practices, suggests development towards a geocentric orientation which will endeavour to develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality, as predicted by P8(d).

Also as discussed earlier, Paperco/Boxco exhibits a predominantly polycentric orientation. Thus, P8(c) is the proposition most applicable to the Chemco case study with respect to international orientation. In support of P8(c), this orientation appears to have resulted in strategic IHR policies and practices which have favoured host country nationals. This is evidenced by the decentralization of SIHRM policies and practices to national or plant level in all instances. Further, in support of P8(c), the polycentric orientation evident at Paperco/Boxco appears to have an impact on the frequency and likelihood of interaction among units, such that interaction is somewhat limited between national units, and even more limited between regional operations. By virtue of the polycentric orientation, there appears to be several limitations on the extent of inter-unit networking in Paperco/Boxco (Bartlett & Ghoshal, 1990; Ghoshal & Bartlett, 1990). Even if inter-unit networking were to be considered effective within the European region, co-ordination with other geographic regions seems limited.

As Paperco/Boxco management wish, in the long term, to see greater consistency in SIHRM practices across units, where feasible, revision of SIHRM policies and
practices, and increasing use of third country nationals would support a transition towards a more regiocentric orientation which will endeavour to develop strategic IHR policies and practices regarding staffing, appraising, compensation and training which do not differentiate between employees on the basis of nationality, as predicted by P8(d). As discussed earlier, however, there remains considerable doubt as to whether Paperco/Boxco management fully appreciate the challenges and management imperatives inherent in such regiocentric development.

P9(a) considers the implications of MNE competitive strategy, in Porter's (1990) terms, for SIHRM policies and practices. This proposition was investigated through case studies, as specific and detailed information was required to investigate the relationship between this relatively complex endogenous variable and SIHRM activities. In the Chemco case study, evidence such as the communication patterns between the European Personnel Director (Mr P.) and national units provides an example of a unit pursuing a quality enhancement competitive strategy with participative, egalitarian and team-oriented HR policies and practices. This suggests support for P9(a). It also suggests that HR policies and practices have an impact on strategic decision making, thus implying a reciprocal relationship between the two areas (Boxall, 1992), rather than a uni-directional, top-down influence (Schuler, 1992).

Also in support of P9(a), in the Paperco/Boxco case study, there is evidence that the organization is pursuing a combined competitive strategy of high quality and cost reduction, with some, albeit limited, evidence of participative, egalitarian and team-oriented HR policies and practices. For example, the compensation policy of maintaining pay levels at or near the top end of a given scale, in order to meet the objectives of attracting, motivating and retaining high quality employees maximizes the strategic objective of high quality. This is balanced, however, by the low labour levels required, due to high levels of automation in Paperco/Boxco factories, and the emphasis on productivity. A challenge for Paperco/Boxco, as for many other firms pursuing this combined strategy, is to maximize both competitive objectives without compromising internal consistency (Hill, 1988; Schuler & Jackson, 1987).
As key line managers in Paperco/Boxco hold responsibility for SIHRM, there appears to be evidence in this case study that HR policies and practices are integrated with and have an impact on strategic decision making. This would imply a reciprocal relationship between the two areas (Boxall, 1992), rather than a uni-directional, top-down influence (Schuler, 1992). The absence, however, of direct representation of the human resources function at the Paperco corporate management group suggests inconsistency in the strategic integration of SIHRM at the most senior organizational level (Lengnick-Hall & Lengnick-Hall, 1988). Some aspects of HR strategy exhibit reciprocity with organizational strategy, particularly evident in the start-up phase of new ventures in greenfield sites. In contrast, other areas such as succession planning show evidence of top-down relationships only.

P10(a) and P10(b) discuss the implications of MNE experience in international business for SIHRM policies and practices and organizational structure, respectively. These propositions were investigated through surveys and case studies, as these required relatively concise and accessible information. Providing support for P10(a), Chemco, as an organization with lengthy and successful experience in international business, recognizes the need for adjustment to local or regional demands. This adjustment is managed through a degree of autonomy provided to regional headquarters and resources for environmental analysis in order to ensure adequate understanding of local environments. A consistent view held by senior managers in Chemco is that, the longer a non-EU organization had been in Europe, and the better-established they are, the less impact the integration of European markets will have. This view would be expected to hold true for Australian MNEs operating in the EU.

In contrast with the Chemco case study, Paperco/Boxco has relatively limited experience in international business, despite a great deal of experience as a large player in the domestic Australian market, and a very experienced senior management group. However, the decentralized, polycentric orientation evident in Paperco/Boxco's EU operations might be more likely to be expected in an MNE with greater international business experience, according to P10(a). It appears that Paperco/Boxco management recognize the need for adjustment to local or regional
demands, managed through a degree of autonomy provided to national and regional headquarters and resources for environmental analysis in order to ensure adequate understanding of local environments. It may be argued that the personal experience held by Paperco/Boxco senior managers in international business may outweigh the relative youth of the organization as an MNE. This suggests that international business experience alone will not determine the degree of decentralization of SIHRM; this appears to be multifactorial. Hence, the Paperco/Boxco case study provides mixed findings with respect to P10(a).

To investigate P10(a) in the 1992 and 1994 surveys, the structure of the HR function was examined, as was the MNE's length of time in international business. In 1992, two-thirds of the Australian MNEs reported the same structure in their HR function as in international operations. In 1994, 76.2% reported the HR structure to be the same as the international structure. These both show more conformity between HR and international operations than did the US MNEs studied by Dowling (1989). Dowling (1989) found a significant positive correlation between the decentralization of HRM structure and length of time in international operations (r = 0.31, p < 0.05).

Replicating Dowling's (1989) approach in the present study, the 1992 survey found no significant relationship between years of international business and decentralization of the HR function (r = -1.16, n.s.). The 1994 survey did find a significant relationship (r = -0.84, p<0.05), although in the opposite direction to Dowling's (1989) results. The 1994 finding suggests a negative relationship between HR decentralization and length of time in international business, although the small sample size precludes any strong conclusions from being drawn here. The failure to replicate Dowling's (1989) finding, and thus the failure to support P10(a), may reflect less variation in the Australian MNEs' structure of the HR function. Even in cases where an Australian MNE reported a more complex, or 'third generation' organizational structure, these MNEs are likely to continue to utilise a simple, 'first generation' structure in their HR function. This suggests a lack of fit (Kobrin, 1992). Whether this represents a flaw which may have negative implication for effectiveness, or a necessary approach for the MNE to develop other "fits", for example with the
environment, requires further investigation (Milliman et al., 1991; Purcell & Ahlstrand, 1994).

P10(b) is the last research proposition investigated in the present research. Support for this proposition was found in the Chemco case study, as Chemco provides an example of an MNE with a great deal of experience, and evidence of effectiveness in operating a complex organizational structure. This issue was also investigated through the 1992 and 1994 surveys. Overall, the responding Australian MNEs were less likely to use complex types or stages of internationalization than were the US MNEs studied by Dowling (1989). As noted for the structure of the HR function, the majority of the Australian MNEs utilize "first-generation" structures, rather than developing across the spectrum of types of international structure. In the context of efforts to improve international competitiveness of Australian MNEs, structural issues are likely to present challenges for many.

Dowling (1989) found a significant positive correlation ($r=.31$, $p<0.05$) between complexity of organizational structure and length of time in international business. In support of Dowling's (1989) finding, and thus in support of P10(b), both 1992 and 1994 surveys found significant positive relationships between years of international business and complexity of organizational structure ($1992: r=0.427$, $p<0.05$; $1994: r=0.514$, $p<0.05$). While these correlations do not in themselves measure how effective these MNEs are in managing their organizational structure, they do provide some indication that experience in international business is related to the development of more complex, or 'third generation' organizational forms.

Paperco/Boxco provides an example of an MNE which has relatively limited experience in international business, yet is facing many challenges in managing the transition towards a more complex organizational structure. This transition appears necessary in order for Paperco/Boxco to effectively manage its expanding international business. This growing complexity in international business is perhaps most evident in an examination of Paperco/Boxco's EU organizational performance throughout the 1990s, as discussed earlier in this chapter.
To summarize across the research questions and propositions investigated for this thesis, the findings with regard to SIHRM in Australian MNEs echo those of Dowling's (1989) research, in that many aspects of the findings "reflect problems in both defining the role of international HRM and adapting well-established HRM activities such as compensation and staffing to an international context" (Dowling, 1988: 252). Despite the presumably greater awareness brought by the time lag between Dowling's study and the present research, this statement remains germane to Australian MNEs operating in the EU. Given the complexity across exogenous and endogenous elements related to SIHRM, the significance of such findings for organizational performance and overall effectiveness is paramount.

**Implications for Policy Analysis and Development**

The findings of this thesis, as discussed with regard to the research questions and propositions, raise several implications concerned with policy analysis and development towards improving the international competitiveness of Australian MNEs in the EU. It is important to contextualize the findings with regard to SIHRM in Australian MNEs operating in the EU. Firms are the central unit of analysis in this thesis, but are viewed as embedded, in economic and social terms (Granovetter, 1992) in the environment. The environment includes the dynamic contexts of Australia, the EU Member States (at national level) and the EU (at supra-national level).

In broad terms, there are implications for Australia's position in international trade with the EU. At the Australian national government level, the evidence provided by this thesis serves as a reminder of the ongoing strategic importance of the EU to Australia. It remains the case that the EU is Australia's largest economic partner when merchandise trade, trade-in-services and investment levels are combined (Department of Foreign Affairs & Trade, 1994a; 1994b). The importance of the EU for Australia is recognized in developments such as the announcement in February 1996 that negotiations would commence for an umbrella treaty to strengthen political and trade relations between Australia and the EU (The Australian, February 14, 1996). It is
undeniable, however, that the Asia-Pacific region has gained in strategic importance for Australian participation in international business (Australian Bureau of Statistics, 1994b; Department of Foreign Affairs & Trade, 1994b; Jiro, 1995).

As has been contended in this thesis (see, for example, the discussion with regard to the second research question earlier in this chapter), regional (supra-national) policy in the EU provides an example of possibilities for supra-national collaboration in policy development in other world regions, such as the Asia-Pacific. This is germane to Australian policy development, as Australia's role in the Asia Pacific is in transition, and depends to some extent on the actions and positions taken by other Asia Pacific nations. For example, it would appear to be of particular value for Australia to be granted inclusion in the ASEM (Asia-Europe Meetings) (Baker, 1996; Richardson, 1995). Access to such meetings would be expected to provide an opportunity for the Australian government to participate in discussions and policy development relevant to the interests of Australian MNEs operating in the EU.

Understanding of the subsidiarity-supranationality issues in the EU has implications for future understanding of regional groupings, such as those identified in Chapter 4, including ASEAN and APEC. The development of the EU provides an advanced example for the regional formation of international governmental alliances emerging in various forms across all continents (Department of Foreign Affairs & Trade, 1994a).

With regard to the EU context in 1996, there is strong potential for enlargement. The raison d'être of the IGC in Turin, which commenced in March 1996, is the aim of streamlining EU decision making mechanisms (Ellingsen, 1996; Smart, 1996). The next five years will bring momentous change to the EU. From March 1996, in principle, foreign ministers of all EU Member States will hold meetings once each month, with the agenda prepared by a working group of their representatives which will meet once a week. There is no fixed date for this process to end, although it is predicted to continue for at least twelve months. The Turin IGC will present a revised treaty, to which all 15 governments must agree. The Treaty must then be approved.
by each national government; some countries will hold referenda to ratify the Treaty. Intergovernmental negotiations related to the Turin IGC will continue into 1997, with Treaty ratification and national referenda continuing into 1998. Provisions of the revised Treaty will take effect only when they have been ratified by all 15 Member States. Through 1998, there will be a review of structural and cohesion funds, and decisions on national participation in a single European currency. Treaty revisions negotiated in 1996 should come into effect towards the turn of the century (Smart, 1996).

With regard to EU Member States and the EU arena, trade and industry policies will continue to exert influence over the activities of MNEs such as those from Australia, seeking to operate within the EU. As has been discussed, factors in the EU external environment, such as government action, play an important role for Australian MNEs. With specific reference to the EU social dimension, developments such as EU directives and national industrial relations legislation are important considerations for Australian MNEs.

The implications of national and supra-national policy development will vary across industries and across MNEs. The increasing complexity of the policy context for international business generates the imperative for MNE management to develop strategic action with regard to their environment. Such strategic action, as exemplified by Paperco/Boxco in this thesis, reflects the possibilities for MNEs to engage in reciprocal relationships of influence with environmental factors. Hence, within-firm policy development must reflect this imperative. Requirements for MNE management relate in several ways to the EU social dimension and SIHRM.

As an example of the complex relationships emerging between MNEs, national and supra-national policies and actions, development with regard to the Maastricht Social Protocol and Agreement can be considered. There has been considerable debate regarding the possibilities for convergence of national labour laws and industrial relations systems in EU member states. Bercusson (1995) has suggested that labour law in EU Member States will converge, driven by the institutional pressure of EU
membership, enacted through European-level labour laws and eventually by European collective agreements.

In a fully developed form, the European social dimension could lead to the development of a European industrial relations framework which is superior to, yet interacting with, national systems already in place. The possibility of established industrial relations systems being rearranged by EU-level initiatives has generated considerable anxieties and worries (Ferner & Hyman, 1992; Grahl & Teague, 1992; Hyman, 1995; Hyman & Ferner, 1994; Marginson & Sisson, 1994). Despite possibilities for convergence, it seems inevitable that national industrial relations systems will continue, in Europe and elsewhere (Baldry, 1994; Blanpain, 1992). As discussed in Chapter 5, while the EU member states are experiencing pressures towards regional integration, their internal infrastructure leads to differing implementation of laws and regulations promulgated at European level.

Overall, managers operating internationally are required to consider the conditions of their competitive environment (Department of Foreign Affairs & Trade, 1994a; Garnaut et al., 1994). Analysis of national and supra-national policy, and awareness of dynamic developments may hold implications not only for Australian MNEs seeking to operate in the EU, but more broadly, for MNEs seeking to compete anywhere. More specifically, the focus of this thesis has been on analysis of policy which carries important implications for SIHRM in MNEs.

Issues of policy analysis and development generally relate to exogenous, environmental, and macro issues. Hence, they contribute to the contextual dimension of SIHRM. Indeed, Brewster (1993; 1994; 1995b) has argued that the underlying assumptions regarding enterprise-level HRM policies and practices are significantly influenced by contextual factors. Within the fields of organizational behaviour and HRM, macro-level and contextual factors have largely been ignored in favour of micro-level, individual factors and outcomes (De Cieri & Dowling, 1995). Although attention to contextual issues for HRM has been scant in the extant literature, there are indications of an increasing awareness and calls for contextual and interdisciplinary
research have become prominent in HRM research (Begin, 1991; Brewster, 1995b; Jackson & Schuler, 1995). It has been suggested that "the acontextual nature of the scientific evidence is part of the problem" (Jackson and Schuler, 1995: 238). The integrative and contextual approach adopted in this thesis is intended to provide a step towards overcoming this problem. Recognition of contextual dynamics and their inter-relationships with factors endogenous to an MNE, and particularly with SIHRM issues, functions, policies and practices, is concomitant with the need for integrative analysis and theory development.

Implications for Theory Development

The findings of this thesis, as discussed with regard to the research questions and propositions, raise several implications for theory development with regard to SIHRM in MNEs, including Australian MNEs in the EU. This thesis aims to operationalize an integrative approach to theoretical and methodological advancement in SIHRM.

Models of HRM (e.g. Brewster, 1995b) and SIHRM (Milliman et al., 1991; Schuler et al., 1993) represent valuable steps in the development in applications of HRM research to the international context. It is, however, arguable that the complexity of the MNE context and the relationships inherent in these frameworks required further exploration and specification.

This thesis has investigated research questions and propositions pertaining to the Schuler et al. (1993) framework (as was shown in Figure 5.9). Schuler et al. (1993) endeavoured to integrate the various theoretical perspectives presented by various researchers, rather than being committed to any particular theoretical perspective. This approach has been followed in this thesis. Schuler et al.'s (1993) integrative conceptual framework recognised previous calls for integrative (Hendry & Pettigrew, 1990) and multidisciplinary approaches (Roberts, Hulin & Rousseau, 1978; Rousseau & House, 1994; Sundaram & Black, 1992) to investigation of dynamic relationships between variables both endogenous and exogenous to an enterprise. The framework
allows for investigation of the interaction of exogenous and endogenous forces which inform the choices of integration and differentiation between MNE units, and ultimately the realisation of MNE goals. Further, the framework allows for integrative investigation of variables across macro and micro levels, through meso processes. This integrative, multidisciplinary approach in the international context echoes the meso paradigm proposed by Rousseau and House (1994), as discussed in Chapter 6. This paradigm of meso organizational research integrates micro and macro perspectives, recognizing that macro and micro level factors cannot be considered in isolation nor treated separately. The SIHRM issues, functions, policies and processes studied in this thesis provide excellent examples of meso processes. The SIHRM issues, functions, policies and processes studied in this thesis provide excellent examples of meso processes.

The top-down approach presented in the past by researchers such as Schuler and Jackson (1987) and Schuler et al. (1993) emphasize implementation over strategy formulation and a focus on matching people to strategy, rather than matching strategy to people. In a recent development, Jackson & Schuler (1995) have presented a comprehensive model of HRM which emphasizes the need for understanding HRM in context. Further, their approach is particularly significant for the present research, as it shows an interesting departure from the singularly top-down approach advocated in these authors' earlier work. Their recent approach recognizes the importance of feedback loops and bi-directional linkages across vertical levels and horizontal aspects of HRM. With the focus remaining firmly on intra-firm issues, Jackson and Schuler (1995) offer a valuable contribution to discussion and recognition of contextual concerns for HRM.

A Revised Integrative Framework for SIHRM in MNEs

The findings of this thesis suggest several revisions are required to the framework presented by Schuler et al. (1993). Hence, a revised integrative framework is presented in Figure 10.1. This has been developed through the iterative process of
induction and deduction employed in this thesis research (Babbie, 1992; Eisenhardt, 1989; Strauss, 1987). This iterative approach reflects the nascent stage of development of theory and empirical research in the SIHRM field. It was recognised that the thesis findings would be suggestive rather than conclusive, emphasizing exploration of the processes involved in the relationships between variables under investigation (Yin, 1994). It is arguable that vertical and horizontal linkages are evident in this conceptualization of SIHRM. Vertical linkages refer to relationships between elemental groups (for example, between organizational strategy and SIHRM functions). Horizontal linkages refer to relationships within elemental groups (for example, between organizational strategy and structure, or relationships amongst SIHRM practices). This revised framework seeks to acknowledge the presence of national and international levels of environmental context, balanced with attention to MNEs and the conceptualization of SIHRM. In this sense, it is offered as a progressive step from the previous models offered in this field.

**Exogenous Factors**

A key argument of this thesis is that exogenous factors are influential for SIHRM issues, functions, policies and practices. Exogenous factors identified through this thesis include political, legal, economic, socio-cultural, industry, firm-specific, and labour and industrial relations matters. Exogenous factors may operate at a number of levels in the MNE's environment, including local, national, and supra-national (Brewster, 1995b). These have been identified and discussed in this thesis. The framework presented by Schuler et al. (1993) suggests that exogenous factors are not only an influence on factors endogenous to the firm, such as organizational strategy and structure, but also are an influence on SIHRM. It is not suggested that these exogenous factors determine management choices or SIHRM policies and practices, but rather that they act as a sub-set of multiple influences. The approach taken by Schuler et al. (1993) implies that the relationship between exogenous factors and SIHRM is generally uni-directional (as shown by uni-directional arrows in their framework).
The findings of this thesis, however, suggest that these relationships include reciprocal influences: organizations such as Paperco/Boxco have influenced their environment, as discussed with regard to the first research question. Hence, the revised framework shown in Figure 10.1 shows bi-directional arrows between exogenous factors and SIHRM. Exogenous factors interact with endogenous factors and strategic MNE components as well as with SIHRM, as will be discussed below. These interactions lead to indirect influence of exogenous factors on MNE concerns and goals. It is also recognized that exogenous factors are capable of direct impact upon MNE concerns and goals. For example, recent changes in the world paper prices have had a direct impact upon Paperco/Boxco’s profitability.

For expediency in dealing with complex interactions, the exogenous factors have been treated in this thesis as largely independent, although with the understanding that this is a simplistic approach. As discussed with regard to the first research question, there
are horizontal linkages between exogenous factors (such as government action and economic activity) which also require attention in any investigation of their vertical linkages with SIHRM and MNE factors. The vertical linkages of exogenous factors and other framework elements have been demonstrated with regard to the first and second research questions and several research propositions [P5(a) to P6(c)]. The revised framework indicates that there is close integration between an MNE and its environment, reflecting the embeddedness of the organization in its context. This contextualization is intended to encourage future theory development to recognize the need for multi-level approaches to SIHRM.

**Strategic MNE Components**

As shown in the integrative framework presented by Schuler et al. (1993), the dynamics of convergence and divergence have implications for MNEs through strategic MNE components which relate to specific issues of integration (inter-unit linkages) and differentiation (internal operations) pertaining to SIHRM. Thus, exogenous factors influence strategic MNE components. The findings of this thesis support this view. Further, it is suggested that strategic MNE components may influence the exogenous factors, at least in terms of determining their relevance for an MNE. For example, the extent to which an MNE develops interunit linkages will influence the importance of exogenous factors, such as industry or political characteristics in any single location, to the MNE overall. Strategic MNE components also interact with endogenous factors, as well as with SIHRM issues, functions, policies and practices, as has been discussed with regard to the research propositions.

**Endogenous Factors**

Several factors endogenous to MNEs which are influential for SIHRM were identified by Schuler et al. (1993), including organizational structure, headquarters international orientation, organizational strategy, technology, and size (Butler et al., 1991; Schuler et al., 1993). These factors have been examined in order to investigate the evidence
of SIHRM in Australian MNEs in the EU. Associated to some extent with organizational structure, modes of internationalization utilized by an MNE emerged as an influential factor for SIHRM in this research. In addition, the extent of MNE experience in international business was found to be of importance for SIHRM.

Based on the findings of this thesis, it is postulated that endogenous factors interact with exogenous factors and strategic MNE components as well as with SIHRM. The relationships between endogenous factors and SIHRM have been discussed with regard to the third and fourth research questions and several research propositions [P7(a) to P10(b)]. These interactions lead to indirect influence of endogenous factors on MNE concerns and goals. It is arguable that feedback from MNE concerns and goals may influence development or change in endogenous factors. The importance of interaction between endogenous factors and SIHRM is exemplified by the evidence of increasing alignment between the HR function and organization structure, shown in the repeated measures survey sample in 1994, compared with the 1992 sample. Furthermore, the findings with regard to research propositions [P10(a) and P10(b)] provide evidence that horizontal linkages amongst endogenous factors are of significance for SIHRM. Paperco/Boxco provides an example of an MNE which has relatively limited experience in international business, yet is facing many challenges in managing the transition towards a more complex organizational structure and more complex SIHRM issues, functions, policies and practices. This transition appears necessary in order for Paperco/Boxco to effectively manage SIHRM in its expanding international business, and to achieve desired organizational performance.

**SIHRM Issues, Functions, Policies and Practices**

As has been identified, SIHRM issues, functions, policies and practices have complex and reciprocal relationships with exogenous and endogenous factors, strategic MNE components, and have several impacts upon organizational concerns and goals. It is important to recognise the horizontal linkages within SIHRM as well as the vertical linkages with other elements of the framework (Dyer & Reeves, 1995).
This revised integrative framework incorporates Dyer's (1984) 'proactive' approach, which argues for active involvement of the human resources function in the process of strategy formulation. Following Dyer (1985), the reciprocity of influence depicted in this framework supports the view that the HRM function should be integrated into processes of strategy formulation as well as strategy implementation. For example, the devolution of the HR function in Paperco/Boxco appears to have caused several problems for the organization which may be overcome by this prescription.

**MNE Concerns and Goals**

The findings of this thesis have supported the view that MNEs will gain by utilising and integrating appropriate SIHRM strategies and practices, to enhance overall strategies and performance. The typical MNE concerns and goals identified by Schuler et al. (1993), including: competitiveness, efficiency, local responsiveness, flexibility, and learning and transfer have been recognized in the present research. It is acknowledged that these concerns and goals vary across specific MNEs (Bartlett & Ghoshal, 1992; Porter, 1986, 1990). These outcomes provide feedback which may lead to emergent changes in SIHRM, as well as in endogenous factors such as organizational strategy or structure.

Overall, the intention of this revised integrative framework of SIHRM is to represent the developments made through the iterative process of induction and deduction undertaken in this thesis. The vertical and horizontal linkages of the framework elements are acknowledged. The importance of recognizing emergent as well as deliberate linkages is seen in this framework (Dyer, 1984; Mintzberg & Waters, 1985). In the framework shown in Figure 10.1, the dynamics of the contextual and integrative approach are implicit in the bi-directional arrows. Hence, this framework recognises the fluid, dynamic nature of SIHRM when viewed in context.

This framework is intended to represent yet another step in the development of understanding of SIHRM in the context of important elements. A multidisciplinary approach which integrates horizontal and vertical linkages is envisaged. It is hoped
that future research may explore these relationships and develop further iterations. Increasing pressures of international competition have led many MNEs to develop more flexibility in form, requiring and reinforcing integration of macro and micro elements (Bartlett & Ghoshal, 1992). Thus, distinguishing between macro and micro elements is not sustainable in a competitive international context. Research which treats macro and micro as inter-related elements is required to address the need for recognition of emerging integrative capacities in MNEs.

**Implications for Research Methodology and Empirical Research in SIHRM**

The rationale for the multi-method research methodology adopted in this thesis was provided in Chapter 6. It is argued that this thesis has illustrated the merit of this multi-method approach. An important observation to be made with regard to the research methodology is that the aim in this thesis was to provide an exploratory study -- building on existing knowledge and postulated relationships, yet being open and receptive to new patterns, relationships and phenomena. This exploratory process has been achieved by utilizing multiple methods of research.

Schuler et al.'s (1993) framework was central to examining the issues under investigation in this thesis. The testing of the framework undertaken in this thesis utilized the extant literature and added original empirical investigation to test the relationships suggested in the framework, so as to improve our understanding of the dynamics of the situation (Sekaran, 1992). Four research questions and 16 research propositions have been investigated through survey and case study data collection and analysis utilizing qualitative and quantitative data.

This thesis has investigated the context of the EU social dimension and SIHRM in Australian MNEs through broad research questions, in conjunction with investigation of the framework and propositions offered by Schuler et al. (1993). The research questions enabled inductive exploration in the field research. To balance this with a deductive approach to theory development, the research propositions were
operationalized and then matched with a body of data (Miles and Huberman, 1994). The investigation of research propositions through qualitative data proved particularly challenging in this thesis and is arguably an area for future research attention. The inclusion of qualitative data in this thesis was facilitated by the fact that these propositions were offered by Schuler et al. (1993) as tentative statements to allow for discovery of unpredicted phenomena or relationships (Eisenhardt, 1989).

The research methodology utilized quantitative and qualitative data collected through personal interviews with expert informants, surveys and longitudinal and retrospective case study design (Bartunek et al., 1993; Dyer, 1984). Lessons have been learned throughout the conduct of this research which may be of value to other researchers.

First, a useful point can be made with regard to the involvement of informants (Chen et al., 1993). This process is labour-intensive and time-consuming, sometimes with less useful information to be gleaned than a researcher might hope for. To maximize the utility of this research technique, future research might examine selection criteria for informants, and methods of cross-validation or checking the reliability of their data. Chen et al. (1993) also suggest that research might investigate theoretical explanations for differences in informants' opinions.

Second, the pilot study proved to be a highly useful component of the research, by providing initial testing and development of the case study protocol and interview questions (Yin, 1994). The pilot study was constructive in the development of the case study protocol for the survey questionnaires and major case studies. The pilot study revealed inadequacies in the initial case study design and helped to articulate it further.

Third, survey questionnaires contributed broad information across a sample of Australian MNEs operating in the EU. These surveys provided quantitative and qualitative information. This mixture of data types provided useful data for analysis, with qualitative comments adding depth to quantitative responses.
Finally, the major case study enabled further exploration of issues. Both case studies utilised multiple sources of evidence for investigation of real-life variables and dynamic relationships (Patton, 1987; Yin, 1994). The major case study has provided a rich lode of information for the present research. Furthermore, there is value in maintaining the long-term relationship with this case study organization in order to ascertain whether current forecasts are realised, and to observe developments in SIHRM in this MNE.

Overall, the multi-method research approach permitted the investigation of contemporary phenomena related to SIHRM in the context of endogenous factors (pertaining to the MNE) and exogenous factors. The research approach taken in this thesis represents an attempt to make a shift in perspective: towards a holistic approach to the conceptualization of HRM and the dynamics in which it is embedded, to identify the fundamental elements and features of SIHRM. A conclusion in this thesis is that there is merit in continuing with this research approach in future work.

Research of vertical linkages cannot advance without further investigation of interrelationships, or horizontal linkages, particularly those within HRM functions, policies and practices (Dyer & Reeves, 1995; Jackson & Schuler, 1995). These horizontal linkages are acknowledged in this thesis, but have not been a central focus of this investigation. An important direction for this research approach would be to further explore the horizontal linkages within elements of the framework.

Implications for SIHRM in Practice

The role played by SIHRM practitioners is changing with the transitory environment of the HR function in MNEs. Dynamic exogenous and endogenous environments, and development within the HRM field itself, are bringing significant changes to SIHRM in practice. The need for SIHRM practitioners to achieve and maintain access to accurate and relevant environmental information is evident, as is the value of the strategic integration of the HR function with endogenous factors such as
organizational strategy (Dyer & Reeves, 1995; Purcell & Ahlstrand, 1994). Despite such evidence, the overall findings of this thesis suggest that Australian MNEs have been somewhat slow or reluctant to implement "best practice" HR strategies (Storey & Sisson, 1993), or bundles of HR strategies, (those which are most effective) with regard to SIHRM issues, functions, policies and practices.

A significant implication of this thesis for SIHRM practitioners is the recommendation that they aim to design and implement SIHRM policies and practices which are applicable in multiple country locations (Brewster, 1995b; Jackson & Schuler, 1995). This research has focused on the context of the EU, yet the need for understanding of complex regional activity is growing in other regions. Whether an MNE is seeking to operate in the EU or the Asia-Pacific region, for example, the relevant exogenous factors must be recognized and incorporated into the organization's strategic efforts.

Furthermore, the recognition of reciprocal relationships between elements of the integrative framework, and vertical and horizontal linkages between those linkages, is not merely of theoretical significance. The emerging role of SIHRM in practice is to develop the capability to manage effectively in this complex context. Throughout this chapter, with regard to the research questions and propositions, specific recommendations have been offered for the attention of SIHRM practitioners. It is to be hoped that the reporting of challenges encountered by the corporate participants in this research will be of interest to SIHRM practitioners in the future.

Summary and Conclusion

There has been scant research in the area of SIHRM, particularly research which has been contextual in approach. This thesis supports the argument for a meso paradigm which integrates contextual and organizational processes and events across multiple levels.

This thesis has aimed to provide exploratory empirical testing of the conceptual
framework and propositions presented by Schuler et al. (1993), concomitant with investigation of research questions relating to the implications of the framework in the context of the EU social dimension for Australian MNEs. Through multidisciplinary review, surveys and organizational case studies, this thesis has endeavoured to address the dearth of research on SIHRM strategies and practices in Australian MNEs.

This final chapter in the thesis has examined the research findings and their implications for policy, theory, research and practice related to SIHRM. A revision of the integrative framework of SIHRM in MNEs has been offered, acknowledging the importance of contextualization for SIHRM. This framework suggests that vertical and horizontal linkages between exogenous factors, strategic MNE components, endogenous MNE factors, SIHRM issues, functions, policies and practices, and MNE concerns and goals require consideration for the field of SIHRM to progress. The review of the multi-method research methodology affirmed its merit. Overall, this research holds a range of implications relevant to policy analysis and development, theory development, research methodology, and SIHRM practice. Hence, it is concluded that this thesis provides a worthwhile contribution to the advancement of the field of SIHRM.
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APPENDIX 1.1.
THE EUROPEAN COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS OF WORKERS

THE HEADS OF STATE OR GOVERNMENT OF THE MEMBER STATES OF THE EUROPEAN COMMUNITY MEETING AT STRASBOURG ON 9 DECEMBER 1989

Whereas, under the terms of Article 117 of the EEC Treaty, the Member States have agreed on the need to promote improved living and working conditions for workers so as to make possible their harmonization while the improvement is being maintained;

Whereas following on from the conclusions of the European Councils of Hanover and Rhodes the European Council of Madrid considered that, in the context of the establishment of the single European market, the same importance must be attached to the social aspects as to the economic aspects and whereas, therefore, they must be developed in a balanced manner;


Whereas the completion of the internal market is the most effective means of creating employment and ensuring maximum well-being in the Community; whereas employment development and creation must be given first priority in the completion of the internal market; whereas it is for the Community to take up the challenges of the future with regard to economic competitiveness, taking into account, in particular, regional imbalances;

Text adopted by the Heads of State or Government of 11 Member States.
Whereas the social consensus contributes to the strengthening of the competitiveness of undertakings, of the economy as a whole and to the creation of employment; whereas in this respect it is an essential condition for ensuring sustained economic development;

Whereas the completion of the internal market must favour the approximation of improvements in living and working conditions, as well as economic and social cohesion within the European Community while avoiding distortions of competition;

Whereas the completion of the internal market must offer improvements in the social field for workers of the European Community, especially in terms of freedom of movement, living and working conditions, health and safety at work, social protection, education and training;

Whereas, in order to ensure equal treatment, it is important to combat every form of discrimination, including discrimination on grounds of sex, colour, race, opinions and beliefs, and whereas, in a spirit of solidarity, it is important to combat social exclusion;

Whereas it is for Member States to guarantee that workers from non-member countries and members of their families who are legally resident in a Member State of the European Community are able to enjoy, as regards their living and working conditions, treatment comparable to that enjoyed by workers who are nationals of the Member State concerned;

Whereas inspiration should be drawn from the Conventions of the International Labour Organization and from the European Social Charter of the Council of Europe;

Whereas the Treaty, as amended by the Single European Act, contains provisions laying down the powers of the Community relating *inter alia* to the freedom of movement of workers (Articles 7, 48 to 51), the right of establishment (Articles 52 to 58), the social field under the conditions laid down in Articles 117 to 122 — in particular as regards the improvement of health and safety in the working environment (Article 118a), the development of the dialogue between management and labour at European level (Article 118b), equal pay for men and women for equal work (Article 119) — the general principles for implementing a common vocational training policy (Article 118), economic and social cohesion (Article 110a to 110c) and, more generally, the approximation of legislation (Articles 100, 100a and 231); whereas the implementation of the Charter must not entail an extension of the Community's powers as defined by the Treaties;

Whereas the aim of the present Charter is on the one hand to consolidate the progress made in the social field, through action by the Member States, the two sides of industry and the Community;

Whereas its aim is on the other hand to declare solemnly that the implementation of the Single European Act must take full account of the social dimension of the Community and that it is necessary in this context to ensure at appropriate levels the development of the social rights of workers of the European Community, especially employed workers and self-employed persons;

Whereas, in accordance with the conclusions of the Madrid European Council, the respective roles of Community rules, national legislation and collective agreements must be clearly established;

Whereas, by virtue of the principle of subsidiarity, responsibility for the initiatives to be taken with regard to the implementation of these social rights lies with the Member States or their constituent parts and, within the limits of its powers, with the European Community; whereas such implementation may take the form of laws, collective agreements or existing practices at the various appropriate levels and whereas it requires in many spheres the active involvement of the two sides of industry;
Whereas the solemn proclamation of fundamental social rights at European Community level may not, when implemented, provide grounds for any retrogression compared with the situation currently existing in each Member State,

HAVE ADOPTED THE FOLLOWING DECLARATION CONSTITUTING THE ‘COMMUNITY CHARTER OF THE FUNDAMENTAL SOCIAL RIGHTS OF WORKERS’:

Title I

Fundamental social rights of workers

Freedom of movement

1. Every worker of the European Community shall have the right to freedom of movement throughout the territory of the Community, subject to restrictions justified on grounds of public order, public safety or public health.

2. The right to freedom of movement shall enable any worker to engage in any occupation or profession in the Community in accordance with the principles of equal treatment as regards access to employment, working conditions and social protection in the host country.

3. The right of freedom of movement shall also imply:

   (i) harmonization of conditions of residence in all Member States, particularly those concerning family reunification;

   (ii) elimination of obstacles arising from the non-recognition of diplomas or equivalent occupational qualifications;

   (iii) improvement of the living and working conditions of frontier workers.

Employment and remuneration

4. Every individual shall be free to choose and engage in an occupation according to the regulations governing each occupation.

5. All employment shall be fairly remunerated.
To this end, in accordance with arrangements applying in each country:

(i) workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living;

(ii) workers subject to terms of employment other than an open-ended full-time contract shall benefit from an equitable reference wage;

(iii) wages may be withheld, seized or transferred only in accordance with national law; such provisions should entail measures enabling the worker concerned to continue to enjoy the necessary means of subsistence for him or herself and his or her family.

6. Every individual must be able to have access to public placement services free of charge.

Improvement of living and working conditions

7. The completion of the internal market must lead to an improvement in the living and working conditions of workers in the European Community. This process must result from an approximation of these conditions while the improvement is being maintained, as regards in particular the duration and organization of working time and forms of employment other than open-ended contracts, such as fixed-term contracts, part-time working, temporary work and seasonal work.

The improvement must cover, where necessary, the development of certain aspects of employment regulations such as procedures for collective redundancies and those regarding bankruptcies.

8. Every worker of the European Community shall have a right to a weekly rest period and to annual paid leave, the duration of which must be progressively harmonized in accordance with national practices.

9. The conditions of employment of every worker of the European Community shall be stipulated in laws, a collective agreement or a contract of employment, according to arrangements applying in each country.

Social protection

According to the arrangements applying in each country:

10. Every worker of the European Community shall have a right to adequate social protection and shall, whatever his status and whatever the size of the undertaking in which he is employed, enjoy an adequate level of social security benefits.

Persons who have been unable either to enter or re-enter the labour market and have no means of subsistence must be able to receive sufficient resources and social assistance in keeping with their particular situation.

Freedom of association and collective bargaining

11. Employers and workers of the European Community shall have the right of association in order to constitute professional organizations or trade unions of their choice for the defence of their economic and social interests.

Every employer and every worker shall have the freedom to join or not to join such organizations without any personal or occupational damage being thereby suffered by him.

12. Employers or employers' organizations, on the one hand, and workers' organizations, on the other, shall have the right to
negotiate and conclude collective agreements under the conditions laid down by national legislation and practice.

The dialogue between the two sides of industry at European level which must be developed, may, if the parties deem it desirable, result in contractual relations in particular at inter-occupational and sectoral level.

13. The right to resort to collective action in the event of a conflict of interests shall include the right to strike, subject to the obligations arising under national regulations and collective agreements.

In order to facilitate the settlement of industrial disputes the establishment and utilization at the appropriate levels of conciliation, mediation and arbitration procedures should be encouraged in accordance with national practice.

14. The internal legal order of the Member States shall determine under which conditions and to what extent the rights provided for in Articles 11 to 13 apply to the armed forces, the police and the civil service.

Vocational training

15. Every worker of the European Community must be able to have access to vocational training and to benefit therefrom throughout his working life. In the conditions governing access to such training there may be no discrimination on grounds of nationality.

The competent public authorities, undertakings or the two sides of industry, each within their own sphere of competence, should set up continuing and permanent training systems enabling every person to undergo retraining more especially through leave for training purposes, to improve his skills or to acquire new skills, particularly in the light of technical developments.

Equal treatment for men and women

16. Equal treatment for men and women must be assured. Equal opportunities for men and women must be developed.

To this end, action should be intensified to ensure the implementation of the principle of equality between men and women as regards in particular access to employment, remuneration, working conditions, social protection, education, vocational training and career development.

Measures should also be developed enabling men and women to reconcile their occupational and family obligations.

Information, consultation and participation for workers

17. Information, consultation and participation for workers must be developed along appropriate lines, taking account of the practices in force in the various Member States.

This shall apply especially in companies or groups of companies having establishments or companies in two or more Member States of the European Community.

18. Such information, consultation and participation must be implemented in due time, particularly in the following cases:

(i) when technological changes which, from the point of view of working conditions and work organization, have major implications for the work-force, are introduced into undertakings;

(ii) in connection with restructuring operations in undertakings or in cases of mergers having an impact on the employment of workers;

(iii) in cases of collective redundancy procedures;
(iv) when transfrontier workers in particular are affected by employment policies pursued by the undertaking where they are employed.

Health protection and safety at the workplace

19. Every worker must enjoy satisfactory health and safety conditions in his working environment. Appropriate measures must be taken in order to achieve further harmonization of conditions in this area while maintaining the improvements made.

These measures shall take account, in particular, of the need for the training, information, consultation and balanced participation of workers as regards the risks incurred and the steps taken to eliminate or reduce them.

The provisions regarding implementation of the internal market shall help to ensure such protection.

Protection of children and adolescents

20. Without prejudice to such rules as may be more favourable to young people, in particular those ensuring their preparation for work through vocational training, and subject to derogations limited to certain light work, the minimum employment age must not be lower than the minimum school-leaving age and, in any case, not lower than 15 years.

21. Young people who are in gainful employment must receive equitable remuneration in accordance with national practice.

22. Appropriate measures must be taken to adjust labour regulations applicable to young workers so that their specific development and vocational training and access to employment needs are met.

The duration of work must, in particular, be limited — without it being possible to circumvent this limitation through recourse to overtime — and night work prohibited in the case of workers of under 18 years of age, save in the case of certain jobs laid down in national legislation or regulations.

23. Following the end of compulsory education, young people must be entitled to receive initial vocational training of a sufficient duration to enable them to adapt to the requirements of their future working life; for young workers, such training should take place during working hours.

Elderly persons

According to the arrangements applying in each country:

24. Every worker of the European Community must, at the time of retirement, be able to enjoy resources affording him or her a decent standard of living.

25. Any person who has reached retirement age but who is not entitled to a pension or who does not have other means of subsistence, must be entitled to sufficient resources and to medical and social assistance specifically suited to his needs.

Disabled persons

26. All disabled persons, whatever the origin and nature of their disablement, must be entitled to additional concrete measures aimed at improving their social and professional integration.

These measures must concern, in particular, according to the capacities of the beneficiaries, vocational training, ergonomics, accessibility, mobility, means of transport and housing.
Title II

Implementation of the Charter

27. It is more particularly the responsibility of the Member States, in accordance with national practices, notably through legislative measures or collective agreements, to guarantee the fundamental social rights in this Charter and to implement the social measures indispensable to the smooth operation of the internal market as part of a strategy of economic and social cohesion.

28. The European Council invites the Commission to submit as soon as possible initiatives which fall within its powers, as provided for in the Treaties, with a view to the adoption of legal instruments for the effective implementation, as and when the internal market is completed, of those rights which come within the Community’s area of competence.

29. The Commission shall establish each year, during the last three months, a report on the application of the Charter by the Member States and by the European Community.

30. The report of the Commission shall be forwarded to the European Council, the European Parliament and the Economic and Social Committee.
APPENDIX 1.2.
TREATY ON EUROPEAN UNION: PROTOCOL AND AGREEMENT ON
SOCIAL POLICY

7 February, Brussels, Belgium.).
PROTOCOL ON SOCIAL POLICY

THE HIGH CONTRACTING PARTIES, NOTING that eleven Member States, that is to say the Kingdom of Belgium, the Kingdom of Denmark and Federal Republic of Germany, the Hellenic Republic, the Kingdom of Spain, the French Republic, Ireland, the Italian Republic, the Grand Duchy of Luxembourg, the Kingdom of the Netherlands and the Portuguese Republic, wish to continue along the path laid down in the 1989 Social Charter; that they have adopted among themselves an Agreement to this end; that this Agreement is annexed to this Protocol; that this Protocol and the said Agreement are without prejudice to the provisions of this Treaty, particularly those relating to social policy which constitute an integral part of the "acquis communautaire": Agree to authorize those eleven Member States to have recourse to the institutions, procedures and mechanisms of the Treaty for the purposes of taking among themselves and applying as far as they are concerned the acts and decisions required for giving effect to the abovementioned Agreement.

The United Kingdom of Great Britain and Northern Ireland shall not take part in the deliberations and the adoption by the Council of Commission proposals made on the basis of the Protocol and the above mentioned Agreement. By way of derogation from Article 148(2) of the Treaty, acts of the Council which are made pursuant to this Protocol and which must be adopted by a qualified majority shall be deemed to be so adopted if they have received at least forty-four votes in favour. The unanimity of the members of the Council, with the exception of the United Kingdom of Great Britain and Northern Ireland, shall be necessary for acts of the Council which must be adopted unanimously and for those amending the Commission proposal. Acts adopted by the Council and any financial consequences other than administrative costs entailed for the institutions shall not be applicable to the United Kingdom of Great Britain and Northern Ireland.

This Protocol shall be annexed to the Treaty establishing the European Community.
AGREEMENT ON SOCIAL POLICY CONCLUDED BETWEEN THE MEMBER STATES OF THE EUROPEAN COMMUNITY WITH THE EXCEPTION OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND.

The undersigned eleven HIGH CONTRACTING PARTIES, that is to say, the Kingdom of Belgium, the Kingdom of Denmark, the Federal Republic of Germany, the Hellenic Republic, the Grand Duchy of Luxembourg, the Kingdom of the Netherlands and the Portuguese Republic (hereinafter referred to the "the Member States"), WISHING TO implement to the 1989 Social Charter on the basis of the "acquis communautaire", CONSIDERING the Protocol on social policy, HAVE AGREED as follows:

ARTICLE 1

The Community and the Member States shall have as their objectives the promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion. To this end the Community and Member States shall implement measures which take account of the diverse forms of national practices, in particular in the field of contractual relations, and the need to maintain the competitiveness of the Community economy.

ARTICLE 2

With a view to achieving the objectives of Article 1, the Community shall support and complement the activities of the Member States in the following fields:

improvement in particular of the working environment to protect workers' health and safety;
working conditions;
the information and consultation of workers;
equality between men and women with regard to labour market opportunities and treatment at work;
the integration of persons excluded from the labour market, without prejudice to Article 127 of the Treaty establishing the European Community (hereinafter referred
to as "the Treaty").

To this end, the Council may adopt, by means of directives, minimum requirements for gradual implementation, having regard to the conditions and technical rules obtaining in each of the Member States. Such directives shall avoid imposing administrative, financial and legal constraints in a way which would hold back the creation and development of small and medium-sized undertakings.

The Council shall act in accordance with the procedure referred to in Article 189c of the Treaty after consulting the Economic and Social Committee.

However, the Council shall act unanimously on a proposal from the Commission, after consulting the European Parliament and the Economic and Social Committee, in following areas:

- social security and social protection of workers;
- protection of workers where their employment contract is terminated;
- representation and collective defence of the interests of worker and employers, including co-determination, subject to paragraph 6;
- conditions of employment for third-country nationals legally residing in Community territory;
- financial contributions for promotion of employment and job-creation, without prejudice to the provisions relating to the Social Fund.

A Member State may entrust management and labour, at their joint request, with the implementation of directives adopted pursuant to paragraphs 2 and 3. In this case, it shall ensure that, no later than the date on which a directive must be transposed in accordance with Article 189, management and labour have introduced the necessary measures by agreement, the Member State concerned being required to take any necessary measure enabling it at any time to be in a position to guarantee the results imposed by that directive.
The provisions adopted pursuant to this Article shall not prevent any Member State from maintaining or introducing more stringent protective measures compatible with the Treaty.

The provisions of this Article shall not apply to pay, the right of association, the right to strike or the right to impose lock-outs.

ARTICLE 3
The Commission shall have the task of promoting the consultation of management and labour at Community level and shall take any relevant measure to facilitate their dialogue by ensuring balanced support for the parties.

To this end, before submitting proposals in the social policy field, the Commission shall consult management and labour on the possible direction of Community action.

If, after such consultation, the Commission considers Community action advisable, it shall consult management and labour on the content of the envisaged proposal. Management and labour shall forward to the Commission an opinion or, where appropriate, a recommendation.

On the occasion of such consultation, management and labour may inform the Commission of their wish to initiate the process provided for in Article 4. The duration of the procedure shall not exceed nine months, unless the management and labour concerned and the Commission decide jointly to extend it.

ARTICLE 4
Should management and labour so desire, the dialogue between them at Community level may lead to contractual relations, including agreements.

Agreements concluded at Community level shall be implemented either in accordance
with the procedures and practices specific to management and labour and the Member States or, in matters covered by Article 2, at the joint request of the signatory parties, by a Council decision on a proposal from the Commission.

The Council shall act by qualified majority, except where the agreement in question contains one or more provisions relating to one of the areas referred to in Article 2(3), in which case it shall act unanimously.

ARTICLE 5
With a view to achieving the objectives of Article 1 and without prejudice to the other provisions of the Treaty, the Commission shall encourage cooperation between the Member States and facilitate the coordination of their action in all social policy fields under this Agreement.

ARTICLE 6
Each Member State shall ensure that the principle of equal pay for male and female workers for equal work is applied.

For the purpose of this Article, "pay" means the ordinary basic or minimum wage or salary and any other consideration, whether in cash or in kind, which the worker receives directly or indirectly, in respect of his employment, from his employer.

Equal pay without discrimination based on sex means:
(a) that pay for the same work at piece rates shall be calculated on the basis of the same unit of measurement.
(b) that pay for work at time rates shall be the same for the same job.

This Article shall not prevent any Member State from maintaining or adopting measures providing for specific advantages in order to make it easier for women to pursue a vocational activity or to prevent or compensate for disadvantages in their
professional careers.

ARTICLE 7
The Commission shall draw up a report each year on progress in achieving the objective of Article 1, including the demographic situation in the Community. It shall forward the report to the European Parliament, the Council and the Economic and Social Committee.

The European Parliament may invite the Commission to draw up reports on particular problems concerning the social situation.

DECLARATIONS
Declaration on Article 2(2)
The eleven High Contracting Parties note that in the discussions on Article 2(2) of the Agreement it was agreed that the Community does not intend, in laying down minimum requirements for the protection of the safety and health of employees, to discriminate in a manner unjustified by the circumstances against employees in small and medium-sized undertakings.

Declaration on Article 4(2)
The eleven High Contracting Parties declare that the first of the arrangements for application of the agreements between management and labour at Community level - referred to in Article 4(2) - will consist in developing, by collective bargaining according to the rules of each Member State, the content of the agreements, and that consequently this arrangement implies no obligation on the Member States to apply the agreements directly or to work out rules for their transposition, or any obligation to amend national legislation in force to facilitate their implementation.
APPENDIX 2
SURVEY CONDUCTED IN 1992

2.1 Covering Letter for 1992 Survey Questionnaire

2.2 1992 Survey Questionnaire
December 18, 1992

Dear [FIELD(2)]

Australian Companies in Europe

I have taken the liberty of writing to invite you to participate in a research project I am currently undertaking for the completion of my doctoral studies with Professor Peter Dowling at Monash University. The enclosed survey comprises an important part of my data base regarding Australian companies doing business in the European Economic Community (EEC). I am particularly interested in developing knowledge about human resource management issues related to operations in an international context, and the recent developments in the EEC certainly provide a fascinating focus for study! A similar survey of international human resource management issues has been conducted in the USA and a comparative investigation of responses is planned.

I know you have a very busy schedule, however I would be most grateful to have your information on the issues covered in the survey. If you are not able to complete this survey, please pass it on to the appropriate person in your organization. The survey should take less than 15 minutes to complete, and all information will be treated as strictly confidential. Only aggregated information based on all respondents to the survey will be published; no individual data will be utilised.

Please return your response by FRIDAY JANUARY 29, 1993 (or earlier still if at all possible). An addressed, stamped envelope is provided for your survey response, or you may choose to send by fax to (03) 565.5412.

Should you wish to clarify any related matter, please do not hesitate to call me on (03) 565.5435 (direct) or send a fax to (03) 565.5412.

In anticipation of a positive response, thank you very much for your cooperation.

Yours sincerely,

Helen De Cieri
Lecturer, Human Resource Management
SURVEY OF AUSTRALIAN COMPANIES IN EUROPE

Once completed, please return this survey to:

Ms Helen De Cieri
Graduate School of Management
Monash University
Clayton Victoria 3168

(Or fax to: 03.565.5412)
Section A: Your Company

1. Please describe the ownership of your organization (please tick one):
   a) Fully Australian ownership
   b) Majority Australian ownership
   c) Majority foreign ownership
   d) Fully foreign ownership
   e) Other
   Please specify:

2. Location of world headquarters (please tick one):
   a) Australia
   b) European Community
   c) Elsewhere
   Please specify:

3. Total number of employees (please indicate):
   a) In Australia
   b) In European Economic Community
   c) In other European countries
   d) Elsewhere

4. What is the percentage of non-local employees (ie. expatriates) in your operations?
   a) In Australia
   b) In European Economic Community
   c) In other European countries
   d) Elsewhere

1992 Survey Questionnaire
5. Please describe your company in terms of:
   a) Total world annual sales  ___ ($AUST million)
   b) World assets  ___ ($AUST million)

6. What percentage of total worldwide annual sales do EEC sales represent?
   ___%

7. Please indicate the spread of assets worldwide:
   a) Australia  ___% of worldwide assets
   b) EEC  ___% of worldwide assets
   c) Other European countries  ___% of worldwide assets
   c) Other  ___% of worldwide assets

8. What are your main service/product lines? (Please indicate as appropriate)

<table>
<thead>
<tr>
<th>Service / Product (Name)</th>
<th>In Australia</th>
<th>In E.E.C.</th>
<th>Elsewhere</th>
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<td>6.</td>
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</tbody>
</table>

9. When did your company enter international operations?
   _______ (Year)

10. In how many countries does your company do business?
    _______ (Number)
Section B: Presence in the European Economic Community

11. When did your company enter the E.E.C. market? (Please tick one)

- Before 1955
- 1955-1984
- 1985-1987
- 1988-1990
- 1991-1992

12. In which E.E.C. countries does your company do business? (Please tick as appropriate)

- Belgium
- France
- Greece
- Luxembourg
- Ireland
- Spain
- Denmark
- Germany
- Italy
- The Netherlands
- Portugal
- United Kingdom

13. What is the nature of your business in the E.E.C.? (Please tick as appropriate)

- Export
- Investment
- Operate through agency
- Sales office
- Operational subsidiary
- Licensing agreement
- Joint venture
- Franchise
- Other, please specify:
Section C: Structure of International Operations

14. What is the international structure of your company? (Please tick one)

☐ International operations organized into national subsidiaries with local coordination of product/services, marketing, human resources, etc.

☐ International division structure with senior management reporting to President or CEO of company.

☐ One or more regional headquarters used to coordinate production/services, marketing, and human resources among national operations.

☐ World-product or world-matrix structure used for coordination of international operations.

☐ Mixed forms of structure (Please describe)

15. Is the Human Resources function structured in a similar way? (Please tick one)

☐ Yes, same as in question 14.

☐ No, the structure of the HR function is different (Please describe)
Section D: International HRM Activities

16. Are expatriate employees brought to Australian operations?

☐ Yes ☐ No

17. If yes to question 16, what is their role?


18. To what extent is there a formalized HR planning process to determine staffing needs? (Please tick one)

☐ No formal HR planning
☐ Some HR planning
☐ There is a well developed HR planning process

19. Does your company have formalized policies for: (Please tick as appropriate)

<table>
<thead>
<tr>
<th>Policies</th>
<th>Yes</th>
<th>No</th>
<th>Policies are currently being developed</th>
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20. What is the company's expenditure on human resource activities as a percentage of total expenditure?

_______(%)
Section E: Your Company and the EEC

21. What do you feel are the most important current issues related to managing in the EEC?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

22. What are the main HRM problem areas related to your business in the EEC for your company at present?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

23. What do you feel are the major future HRM implications of the Single European Market?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

24. What has been the impact on your company of the EEC Social Charter (for Workers' Rights) and Social Action Programme?

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________
25. Do you have any additional comments (Please use additional page if required)

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

26. We would greatly appreciate the opportunity to know more about your company and the EEC. If you would be interested in an interview to discuss these issues in more depth, please complete the following:

Name: _________________________________________________________________

Company: ______________________________________________________________

Telephone/Fax: __________________________________________________________

THANK YOU FOR YOUR ASSISTANCE
APPENDIX 3
SURVEY CONDUCTED IN 1994

3.1 Covering Letter for 1994 Survey Questionnaire
3.2 1994 Survey Questionnaire
November 29, 1994

Dear FIELD(2),

Australian Companies in Europe

I have taken the liberty of writing to invite you to participate in a research project I am currently undertaking for the completion of my doctoral studies. The enclosed survey comprises an important part of my data base regarding Australian companies doing business in the European Union (EU). I am particularly interested in developing knowledge about human resource management issues related to operations in an international context, and the recent developments in the EU certainly provide a fascinating focus for study! Previous surveys of international human resource management issues have been conducted in the USA and in Australia and a comparative investigation of responses across countries and over time is planned.

I realise you have a very busy schedule, however I would be most grateful to have your information on the issues covered in the survey. If you are not able to complete this survey, please pass it on to the appropriate person in your organization. The survey should take less than 15 minutes to complete, and all information will be treated as strictly confidential. Only aggregated information based on all respondents to the survey will be published; no individual data will be utilised.

Please return your response by FRIDAY DECEMBER 23, 1994 (or earlier still if at all possible). An addressed, stamped envelope is provided for your survey response, or you may choose to send by fax to (03) 344 4122.

Should you wish to clarify any related matter, please do not hesitate to call me on (03) 344.4122 (direct) or send a fax to (03) 344.4122.

In anticipation of a positive response, thank you very much for your cooperation.

Yours sincerely,

Helen De Cieri
Lecturer, Human Resource Management & International Management
SURVEY OF AUSTRALIAN COMPANIES IN EUROPE

Please return the completed survey in the enclosed stamped envelope to:

Ms Helen De Cieri
P.O. Box 30
Clifton Hill
Victoria Australia 3068

(Or fax to: 03.344.4122)
1. Please describe the ownership of your organization (please tick one):
   a) Fully Australian ownership
   b) Majority Australian ownership
   c) Majority foreign ownership
   d) Fully foreign ownership
   e) Other
      Please specify:

2. Location of world headquarters (please tick one):
   a) Australia
   b) European Union
   c) Other European country
   d) In South East Asia
   e) Elsewhere
      Please specify:

3. Total number of employees (please indicate):
   a) In Australia
   b) In European Union
   c) In other European countries
   d) In South East Asia
   e) Elsewhere

4. What is the percentage of non-local employees (ie. expatriates) in your operations?
   a) In Australia
      ___%  
   b) In European Union
      ___%  
   c) In other European countries
      ___%  
   d) In South East Asia
      ___%  
   e) Elsewhere
      ___%
5. Please describe your company in terms of:
   a) Total world annual sales: ___ ($AUST million)
   b) World assets: ___ ($AUST million)

6. What percentage of total worldwide annual sales do European Union sales represent? ___%

7. Please indicate the spread of assets worldwide:
   a) Australia: ___% of worldwide assets
   b) European Union: ___% of worldwide assets
   c) Other European countries: ___% of worldwide assets
   d) South East Asia: ___% of worldwide assets
   e) Other: ___% of worldwide assets

8. What are your main service/product lines? (please indicate as appropriate)

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9. When did your company enter international operations? _______ (Year)

10. In how many countries does your company do business? _______ (Number)
Section B: Presence in the European Union

11. When did your company enter the European Union market? (Please tick one)
   - [ ] Before 1955
   - [ ] 1955-1984
   - [ ] 1985-1987
   - [ ] 1988-1990
   - [ ] 1991-1992
   - [ ] 1993-1994

12. In which European Union countries does your company do business? (Please tick as appropriate)
   - [ ] Belgium
   - [ ] France
   - [ ] Greece
   - [ ] Luxembourg
   - [ ] Ireland
   - [ ] Spain
   - [ ] Sweden
   - [ ] Austria
   - [ ] Denmark
   - [ ] Germany
   - [ ] Italy
   - [ ] The Netherlands
   - [ ] Portugal
   - [ ] United Kingdom
   - [ ] Finland
   - [ ] Norway

13. What is the nature of your business in the European Union? (Please tick as appropriate)
   - [ ] Export
   - [ ] Investment
   - [ ] Operate through agency
   - [ ] Sales office
   - [ ] Operational subsidiary
   - [ ] Licensing agreement
   - [ ] Joint venture
   - [ ] Franchise
   - [ ] Other, please specify:
Section C: Structure of International Operations

14. What is the international structure of your company? (Please tick one)
   - [ ] International operations organized into national subsidiaries with local coordination of product/services, marketing, human resources, etc.
   - [ ] International division structure with senior management reporting to President or CEO of company.
   - [ ] One or more regional headquarters used to coordinate production/services, marketing, and human resources among national operations.
   - [ ] World-product or world-matrix structure used for coordination of international operations.
   - [ ] Mixed forms of structure (Please describe)

15. Is the Human Resources function structured in a similar way? (Please tick one)
   - [ ] Yes, same as in question 14.
   - [ ] No, the structure of the HR function is different (Please describe)

Section D: International Human Resource Management Issues

16. Are expatriate employees brought to Australian operations?
   - [ ] Yes
   - [ ] No

17. If yes to question 16, what is their role?
18. To what extent is there a formalized HR planning process to determine staffing needs? (Please tick one)

- [ ] No formal HR planning
- [ ] Some HR planning
- [ ] There is a well developed HR planning process

19. Does your company have formalized policies for: (Please tick as appropriate)

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<td>Repatriate career development</td>
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</table>

20. What is the company's expenditure on human resource activities as a percentage of total expenditure?

[ ] (%)

21. What do you consider to be the most important issues you are facing with regard to international human resource management (HRM)?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Section E: Your Company and the EEC

22. What do you feel are the most important current issues related to managing in the European Union?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

23. What are the main HRM problem areas related to your business in the European Union for your company at present?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

24. What do you feel are the major future HRM implications of the Single European Market / European Union?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________

25. What has been the impact on your company of the European Union Social Dimension?

___________________________________________________________________________
___________________________________________________________________________
___________________________________________________________________________
26. Do you have any additional comments? (Please use additional page if required)

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

27. I would greatly appreciate the opportunity to know more about your company and the European Union. If you would be interested in an interview to discuss these issues in more depth, please complete the following:

Name:

Company::

Telephone/Fax::

THANK YOU FOR YOUR ASSISTANCE
APPENDIX 4.1.
PUBLISHED WORK RELEVANT FOR THIS THESIS


This work is placed in a pocket attached to the inside back cover, in accordance with the *University of Tasmania Research Higher Degrees Handbook* (1996).
An Integrative Framework of Strategic International Human Resource Management

Randall S. Schuler  
New York University

Peter J. Dowling  
Monash University

Helen De Cieri  
Monash University

The globalization of business is making it more important than ever to understand how multinational enterprises (MNEs) can operate more effectively. A major component of this understanding appears to be the field of human resource management, and in particular, the field of international human resource management (Brewster, 1991; Hendry, 1992; Desatnick & Bennett, 1978; Dowling, 1986; Dowling & Schuler, 1990; Evans, 1986; Laurent, 1986; Tung, 1984). The trend over the past few years has been to identify the linkage of human resource management with strategy and offer an understanding of how single country or domestic human resource management can facilitate organizational understanding and effectiveness (Wright and McMahan, 1992). In this article we attempt to extend this line of work into the international arena. We do this by offering a framework of strategic international human resource management (SIHRM). Anchoring SIHRM in the strategic components of MNEs, namely their interunit linkages and internal operations, strategic aspects of international human resource management are described. Using several theoretical bases, numerous propositions are offered. These propositions reflect the single and multiple influence of the strategic components of MNEs and several exogenous and endogenous factors on SIHRM. The intention is to offer a framework that can serve both academics and practitioners in furthering our understanding of strategic international human resource management.

The world has become more competitive, dynamic, uncertain and volatile than ever (Kanter, 1991; Kobrin, 1992). To be successful, many firms have to

Direct all correspondence to: Randall S. Schuler, New York University, Leonard Stern School of Business, 7-11 Tisch Hall, 40 West 4th Street, New York, NY 10012-1118.

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The differentiation and integration of units (Lawrence & Lorsch, 1967) needs to be done with some attention paid to being globally competitive, efficient, responsive and flexible to local needs and conditions and being able to transfer their learning across units. In essence, MNEs are firms that need to be global and local (multidomestic) at the same time. There are, however, varying levels of globalness and localness that MNEs need to achieve. And there are varying ways to attain similar levels of globalness and localness (Bartlett, 1992).

With the concern for being global and the concern about the transfer of learning and being multidomestic and, therefore, sensitive to local conditions simultaneously, several strategic concerns relevant to international human resource management arise. For example, can and how do MNEs link their globally dispersed units through human resource policies and practices? Can and how do MNEs facilitate a multidomestic response that is simultaneously consistent with the need for global coordination and the transfer of learning and innovation across units through human resource policies and practices?

Thus for strategic international human resource management these characterizations of some possible issues facing multinational enterprises imply several things (Kochan, Batt, & Dyer, 1992). They imply that MNE generally confront several strategic international human resource management decisions. Yet they may also confront several other strategic international human resource decisions that vary depending upon specific characteristics of the MNE. And they also imply the importance of strategic international human resource management (SIHRM) for MNEs. As such, the aims of this article are:

- To offer a definition of the field of strategic international human resource management (SIHRM) and to present an integrative framework for this new field of practice and research which identifies key factors and characteristics and their inter-relationships.
- To present testable propositions suggested by the framework.
- To suggest some implications of this framework for academics and practitioners working in the field of SIHRM.

**Definition of SIHRM**

As the area of human resource management has expanded and become more linked with the strategic needs of the business, it has taken on the characterization of strategic human resource management (Schuler, 1992; Lengnick-Hall & Lengnick-Hall, 1988; Wright & McMahan, 1992). We are witnessing a similar phenomenon in the area of international human resource management as well, viz., the linkage of international human resource management with the strategic needs of the business (Galbraith & Kazanjian, 1986; Bartlett & Ghoshal, 1991); and thus the development of strategic international human resource management (Bartlett & Ghoshal, 1992; Adler & Bartholomew, 1992; Black et al., 1992). This linkage is having a substantial impact on identifying and defining what is to be included in strategic international human resource management. Developed more in the discussion.
Figure 1. Integrative Framework of Strategic International Human Resource Management in MNE.
internal operations are also included in Figure 1 under the heading "SIHRM Issues." More precisely, how these internal operations and the interunit linkages of MNEs are expected to influence SIHRM will be suggested after the remaining discussion of the integrative framework of SIHRM.

**SIHRM Issues**

SIHRM issues address an MNE's interunit and within unit and needs and challenges. Although the MNE is separated across several nations it is a single enterprise. It needs to consider how to balance the needs for differentiation and integration (Lawrence & Lorsch, 1967; Galbraith, 1987). As an MNE it needs to be aware of how much autonomy it can and needs to grant to local units. It needs to decide how much to control and how to coordinate those units. As an MNE, it needs to decide how much control it will exert over the internal operations of the local unit, particularly how much sensitivity to the local environment is needed. Because these issues of differentiation and integration are often facilitated by human resource management activities, they represent a critical component in our framework.

**SIHRM Functions**

SIHRM functions represent three areas: the MNE's human resource orientation; the time, energy and financial resources devoted to operating the human resource organization in the MNE; and the location of those resources and the human resource organization. In managing its human resources, the MNE elects to manage in one of several ways. As discussed later, this can range from allowing the units to manage independently to deciding that the units will be managed the same as they are at the center (i.e., the headquarters) of the MNE.

MNEs can devote considerable time, energy and financial resources towards managing their human resources. The center can staff a rather extensive Human Resource department that is exclusively devoted to SIHRM decisions, such as deciding how to select and repatriate expatriates and how to compensate these employees. It can also hire a staff of individuals devoted to management training and development, largely to develop a global management cadre. Of course, many of these activities could be rather minimal if the number of expatriates is small and the units are given a great deal of autonomy (these alternatives are sometimes discussed under the labels of centralization and decentralization). Thus, the location of these activities can vary, from the center all the way out to the local units. Thus, the resources devoted to and the location of SIHRM operations can be expected to vary considerably across MNEs.

**SIHRM Policies and Practices**

SIHRM policies and practices represent the last component of SIHRM. This involves the development of general guidelines on how individuals will be managed and the development of specific practices. For example, an MNE might have an HR policy that indicates that performance will be rewarded. Given that this is a rather general statement, each MNE unit could be free to
The framework in Figure 1 obviously oversimplifies the reality of the MNE and the factors that influence SIHRM in MNEs, e.g., the type of business and the structure of international operations may be related. It might be reasonably argued that in fact, the type of business could be an antecedent of the structure of international operations (Phatak, 1992; Heenan & Perlmutter, 1979). However, because the exact nature of the possible relationships among these factors can be debated, we offer them here as independent factors subject to empirical investigation (Kobrin, 1992).

Concerns and Goals

The last portion of our integrative framework of SIHRM is "MNE Concerns and Goals." The five concerns and goals shown in Figure 1 are: a) global competitiveness; b) efficiency; c) local responsiveness (sensitivity); d) flexibility; and e) organizational learning (and transfer of information) (Bartlett & Ghoshal, 1991). As Bartlett and Ghoshal (1991) suggest, while these concerns and goals are important to MNEs, their degree of importance and the nature of how the importance is constructed may vary with the specific MNE. Being globally competitive for an MNE that is really in a global industry has implications for competitive behavior that are different from an MNE that is in a multidomestic industry (Porter, 1986, 1990). Nevertheless, for survival, all MNEs need to be concerned with global competitiveness.

They also need to be concerned with being efficient, with having and utilizing the most appropriate methods and processes to make and deliver their products and services worldwide. Also, because of the intense global competitiveness, MNEs are seeking to identify the methods and processes that are most appropriate. They are realizing that every possible source of competitive advantage must be identified and utilized. And as they are searching, particularly firms pursuing total quality management, they are realizing that a systematic approach to developing human resource policies and practices may, in fact, give competitive advantage (Galbraith, 1992). Furthermore, these MNEs are also realizing that SIHRM policies and practices may indeed travel well, i.e., they may actually transfer across cultures more easily than once assumed (Wickens, 1987). Of course, this application of human resource practices across environments is typically done with recognition for local conditions. Local conditions such as laws and culture make it imperative for MNEs to be aware of the need to adapt their human resource practices. Thus, an MNE's SIHRM policies and practices need to be locally responsive and globally competitive at the same time (Bartlett & Ghoshal, 1991).

MNEs also need to be concerned with being flexible to changing conditions, whether from local conditions or from technology, strategy, or nature of the competition. These and other factors may require new human resource policies and practices in the MNE center and the MNE local units.

Lastly, a major goal of MNEs is facilitating learning and the transfer of this learning across units. As MNEs face more competition, their degrees of freedom, their slack, tends to be constrained. Consequently, they must encourage new learning, and ultimately the development of new products and
contingency frameworks using information characteristics and forms of control along with SIHRM practices (Pucik & Katz, 1986; Galbraith, 1992); c) alternative organizational structures for global operation, their linkages and their human resource implications (Galbraith & Kazanjian, 1986); and whether or not to export people or export the HR function (Fisher, 1989).

The key objective in interunit linkages appears to be balancing the needs of variety (diversity), coordination, and control for purposes of global competitiveness, flexibility and organizational learning (Bartlett & Ghoshal, 1991). Of course, the nature of this balance is expected to vary depending on the characteristics of the MNE. As described below, this objective becomes most challenging in Bartlett and Ghoshal's transnational MNE. Here there may be several units within a global business that need to be coordinated for the success of that business. The units of separate businesses (and/or those within separate regions) need to be coordinated for the total MNE to reap advantages of the synergies of cooperation. Yet, the units need to be given the autonomy to make the best decisions for the local conditions, and they need the autonomy for motivation. Still the headquarters of the MNE may wish to utilize more global, companywide criteria (Roth, Schweiger, & Morrison, 1991). These relationships and the tensions that can arise are directly played out in HR policies and practices. The efforts by units for autonomy are often resistance to policies or, at most, acceptance of some general guidelines that allow for local discretion. This result of some general HR policies (guidelines), however, can enable the balance to be achieved (Prahalad & Doz, 1981; 1987).

Balancing the needs and demands of coordination, control and autonomy is a fundamental objective for MNEs. Following Bartlett and Ghoshal (1991, pp. 59-71) results in the following fundamental assumption in SIHRM:

Balancing the needs of coordination, control and autonomy and maintaining the appropriate balance are critical to the success of the MNE in being globally competitive, efficient, sensitive to the local environment, flexible and capable of creating an organization in which learning and the transfer of knowledge are feasible.

This fundamental objective for MNEs and the corresponding fundamental assumption in SIHRM identifies the major objectives in interunit linkages for SIHRM:

Balancing the needs of autonomy (thereby facilitating variety and diversity), coordination, and control for the purpose of global competitiveness, flexibility and learning through the use of the relevant SIHRM policies and practices.

This objective, along with the relevant SIHRM policies and practices directly influenced, is shown in Figure 2.
& MacGuire, 1975; Hailey, 1992). As Pucik and Katz (1986) argued, firms’ reactions (to the need for coordination and control) could be classified by: a) establishing rules and procedures for HCNs or TCNs to carry out; or b) socializing the HCNs or TCNs to think and behave like expatriates. Of course these pure archetypes might not be found as MNEs seek to find the most appropriate solution to fit the circumstances. For example, under conditions of rapid change, high uncertainty and the need for social information to be gathered and utilized, MNEs would more likely be found socializing employees (Van Maanen & Schein, 1979). Under conditions of stability, certainty and the need for technical information to be utilized, firms would more likely be found establishing rules and procedures for employees to carry out (Banai, 1992). But MNEs rarely ever found either one set of conditions or another. So combinations of the two approaches were common. But because socializing has a tendency to reflect the culture and norms of the parent firm, this process tends to biased (Pucik and Katz, 1986). Thus the ability of the firm to maximize the benefits of variety can be compromised. This may be diminished, however, if an MNE engages more third country nationals and host country nationals in preference to expatriates, individuals who would be expected to have been previously socialized (Cappelli & McElrath, 1992).

Resulting from this discussion is our first proposition:

PI(a). As a means for control and coordination, MNEs will initially attempt to utilize PCNs in preference to HCNs or TCNs; however resource considerations will give way to facilitating the utilization of HCNs and TCNs by MNEs to control and coordinate their global operations.

PI(b). As MNEs increase their reliance upon HCNs and TCNs to control and coordinate their global operations, they will devote more resources to socializing these employees and to developing policies and procedures that might be used to guide local decision making, while still allowing some local discretion.

These propositions are based upon and consistent with the theoretical positions and rationale of agency theory (Jones, 1984), and resource dependence theory (Pfeffer & Salancik, 1978) as presented by Wright and McMaham (1992) in their discussions of strategic human resource management.

Systematically Linking Regions/Countries with HR Policies and Practices. While appropriate staffing mixes can be helpful in integrating and coordinating the various units of the MNE, human resource policies and practices can also assist in this objective. In doing so they must also be consistent with the needs of the business to achieve competitiveness, be flexible and facilitate the transfer of learning across units. Because of the existence of a wide variety of human resource practices this must be done consciously and systematically.

Part of the challenge in developing human resource practices to facilitate interunit linkages is simultaneously allow for some flexibility. This flexibility enables changes and its enables adaptation to local conditions. This is attained
Using Management Development as an Interunit Link. Although using the appropriate HR policies and practices is an important way to link regional units of the MNE, they also use management development. Evans (1992) describes management development in MNEs, as being the "glue" to bond together otherwise loose and separate entities. In MNEs that become structured to reflect the complexity of their global environments, they often decentralize operations by region, product or both. They may even become hierarchies (MNEs having multiple units with headquarters spread throughout the world). In their attempts to generate and benefit from some synergies of being a heterarchy or transnational, MNEs may try to create a pool of global managers (Bartlett & Ghoshal, 1992). This pool, through management development activities, is able to serve the MNE in any region or business. In order to operate this, the corporate or global headquarters' operation houses the management development effort. The local, regional and business HR units cooperate with the corporate HR unit in their efforts to coordinate the management development programs in order to glue the interunits together (Evans, 1992; Scullion, 1992; Vanderbroeck, 1992; Tichy, 1992; Bartlett & Ghoshal, 1991; 1992). This results in the following proposition:

\[
P_1(e). \quad \text{MNEs will increase their utilization of management development activities as their needs to coordinate the strategic activities of separate units increase and the utility of having a global pool of managers increases.}
\]

Internal Operations in SIHRM

While these interunit linkages just discussed tend to be the traditional focus of strategic international human resource management, the internal operations require the same degree of attention. Both have an influence on the effectiveness of an MNE (Porter, 1990; Punnett & Ricks, 1992). Each local unit remains a part of the MNE, although the degree to which it needs to be tightly integrated varies. Nevertheless, it must fit in with the local environment. It must recognize and abide by local employment law, tradition and custom of the local area. Its human resource practices must reflect those aspects of the local environment. Thus the local units need to be given some autonomy to adapt to the local conditions. Yet, because they need to be coordinated with the rest of the MNE, e.g., to facilitate the selection transfer, appraisal and compensation of local managers, they need to share some common human resource policies.

Beyond fitting in with the local environment and fitting with the MNE, the local unit needs to fit with its competitive strategy. That is, the local unit needs to develop human resource practices that are not only consistent with the policies of the MNE, but also fit with the competitive strategy of the unit (Schuler & Jackson, 1987). Exactly how this fit might be obtained is suggested below, but the implication here is that the local unit needs to be fitting the local human resource practices with aspects beyond the local culture in order to be effective and yet still retain some responsiveness.
OBJECTIVE
Being responsive to and effective in the local environment yet being willing and ready to act in a coordinated fashion with the rest of the MNE units.

Relevant SIHRM Policies and Practices

- Matching and adapting HR practices with the competitive strategy of the unit and the local culture and legal system.
- Creating a modus operandi whereby these HR practices can be modified to fit changing conditions.
- Developing Global HR Policies flexible enough to be adapted for local HR practice.

Figure 3. SIHRM Issue: Focus on Internal Operations

All three components of the culture imperative are important for MNEs to consider in decisions about where to locate and about which human resource practices to use and that can be used. Because questions about which human resource practices to use are also influenced by a competitive strategy imperative (Morrison & Roth, 1992; Wickens, 1987), the potential challenge emerges: Balancing the imperatives in shaping the final set of SIHRM practices to be used on the local level.

Combining the precepts from behavioral theory (Schuler & Jackson, 1987), and requisite variety thinking (Weick, 1969), results in the three propositions below:

**P2(a).** Local unit HR practices will reflect the imperative of the competitive strategy of the local unit and the cultural imperative of the local environment. Thus, local units pursuing a competitive strategy will have HR practices that reflect and support that strategy and will have HR practices that reflect the local environment.

In attempts to attain other MNE concerns and goals, the local unit will be ready to ensure that HR practices, once developed, can also be adapted to fit with the needs of the MNE, when necessary. For example, to accommodate potential staffing and transfer needs, the local unit might adapt some staffing and development practices more consistent with those of the MNE. This may, however, be done for a limited pool of potential individuals (e.g., individuals who could be global managers). Nevertheless, this might help the MNE be more competitive. The result of this is the following proposition:

**P2(b).** Units within MNEs will develop HR practices that are reflective of local conditions, and simultaneously be ready to adapt some HR practices to coordinate activities with other units particularly as the needs for coordination increase.
propositions suggested are those that would seem to reflect the most direct relationship between the fundamental objective of the MNE (as discussed as interunit linkages and internal operations) and the associated SIHRM issues of control and autonomy and local sensitivity and strategic fit as illustrated in Figure 1. While these relationships are offered for empirical examination, the results may suggest a more parsimonious way of describing the relationships of SIHRM.

Also offered for empirical examination are the following sections on Exogenous Factors and Endogenous Factors. In these sections further SIHRM propositions are offered that reflect the influence that these factors might more specifically have on the relationship between the strategic MNE components and the SIHRM issues shown in Figure 1. While the influence of some, e.g., culture and competitive strategy, has already been alluded to, more precise expectations of the influence of all these factors are suggested.

### Exogenous Factors

The Exogenous Factors are classified into two groups—*Industry Characteristics* and *Country/Regional Characteristics*. Industry Characteristics include the following factors: a) type of business or industry; b) nature of the competitors; and c) the extent of change. Country/Regional Characteristics include: a) the political environment; b) the economic environment; c) the legal environment; and d) the socio-cultural environment.

#### Type of Business

This factor refers to the distinction drawn by Porter (1986) between global and multidomestic business. Porter suggests that the industry (or industries if the organization is a conglomerate) in which a firm is involved is of considerable importance because patterns of international competition vary widely from one industry to another. At one end of the continuum of international competition is the *global industry*, one in which the firm’s competitive position in one country is significantly influenced by its position in other countries. Examples include commercial aircraft, semiconductors, and copiers. The other end of the continuum is the *multidomestic industry*, where competition in each country is essentially independent of competition in other countries. Traditional examples include retailing, distribution, and insurance. While conceptually different from the forms of MNEs offered by Bartlett and Ghoshal (1991), Porter’s description of the strategic implications for MNEs in global versus the multidomestic industries is similar to that of the multinational and transnational forms:

The global industry is not merely a collection of domestic industries but a series of linked domestic industries in which the rivals compete against each other on a truly worldwide basis. . . . In a multidomestic industry, then, international strategy collapses to a series of domestic strategies. The issues that are uniquely international revolve around how to do business abroad, how to select good countries in which
category...although their relative intensity varies across industries, most multinationals respond to both sets of pressures simultaneously (p.2).

While recognizing the pitfalls of oversimplification, we offer several propositions associated with the integrative framework for strategic international human resource management:

P3(b). MNEs whose dominant business is towards the global end of the industry continuum will have a HR function which is more international in orientation and will give more emphasis to the issue of international coordination and control.

P3(c). MNEs whose dominant business is towards the multidomestic end of the industry continuum will have a HR function which is less international in orientation and will give more emphasis to the issue of coordination and control at the national level.

Theoretical and conceptual support for these propositions can be found in the early integration and differentiation arguments by Lawrence and Lorsch (1967) and later expanded upon by Galbraith (1973, 1987).

Competitors

This exogenous factor refers to the major competitors with which the MNE must contend in its various product or service markets. As Thompson and Strickland (1990) note, studying the actions and behavior of an organization’s nearest competitors is essential. Unless careful attention is paid to what competitors are doing, an MNE’s intended strategy may prove to be dysfunctional. Thompson and Strickland suggest a number of factors or headings under which the objectives and strategies of competitors may be categorized. The first is competitive scope, which refers to whether the competitor is operating on a global, multicountry, national, or regional basis. The second is the competitor’s strategic intent—for example, to be the dominant leader, to be among the industry leaders, or to maintain position. The third factor is the competitor’s market share objective—for example, aggressive expansion via both acquisition and internal growth, maintaining present market share by growing at a rate equal to the industry average, or giving up market share to achieve short-term profit objectives. The fourth factor is the competitor’s overall competitive strategy—such as low-cost leadership, niche market focus, or a differentiation strategy (Porter, 1986, 1990).

Other issues relevant to competitor analysis include evaluation of potential major players in the industry and attempting to predict future strategic moves by competitors. Generally as the competition becomes more intense and aggressive, greater attention is given to competing successfully. Consequently, the enterprises devote more attention and expertise to issues of linkage and internal operations and to the management of their resources, including human
among expatriates and TCNs. Frequent management development programs bringing people together to facilitate familiarity and understanding are more likely (Evans, 1992; Bartlett & Ghoshal, 1991).

Based upon the extent of change the following two propositions are offered:

**P5(a).** The more rapid, intensive and global the change occurring within and around the industry, the more attention and resources MNEs will devote to strategic international human resource management issues in attempts to control and minimize risk and increase certainty and predictability.

**P5(b).** The more rapid and intense the change, the greater the need for coordination and communication between units, and thus there will be a greater need for more well-developed HR policies and practices to facilitate information flow and understanding.

These propositions are based upon a rationale offered by Edstrom and Galbraith (1977) in their arguments related to the need for control, certainty and predictability in efficiently coordinating dispersed units. They are also consistent with agency theory (Jones, 1984) and resource dependency theory (Pfeffer & Salancik, 1978; Grant, 1991).

In addition to the impact of these Exogenous Factors of Industry Characteristics, are those Exogenous Factors of Country/Regional Characteristics. Because of similar impacts, a single proposition is offered for the political and economic factors and another is offered for the legal and socio-cultural.

**Political**

Building on Ferris and Judge (1991), who do an excellent job in describing the importance of political influence in human resource management, this factor includes various forms of risk associated with the political environment in a particular country or region. The most important aspect of this factor is the MNE’s assessment of the overall political stability of a country or region. This may be particularly important in an MNE’s initial decision to enter a market (Phatak, 1992; Vernon, 1990; Root, 1987; de la Torre & Neckar, 1990).

Robock and Simmonds (1989) define political risk as “the likelihood that political forces will cause drastic changes in a country’s business environment that affect the profit and other goals of a particular business enterprise” (p.378). Political risk conditions create an environment of uncertainty, of political exposure (Sundaram & Black, 1992). Needing to manage this uncertainty, MNEs may act to exert more apparent control over the situation by sending more home office employees (expatriates) and imposing policies and practice prescribed by headquarters (Pucik, Tichy & Barnett, 1992).

**Economic**

This factor relates to the basic economic position and extent of economic development of a country or countries in a region from the perspective of
Dimensions of legal issues which may impact an MNE's strategic use of human resources include heterogeneity, complexity, relevancy, stability and predictability. While each of these dimensions has its own unique impact, generally the greater the heterogeneity, complexity and relevancy, and the less the stability and predictability, the more the need for a broader understanding of legal issues (Florkowski & Nath, 1993). The more useful it is also likely to be for host country nationals to be employed in the MNE's local human resource positions.

Socio-cultural

This factor refers to the specific social and cultural norms of the host environment which the MNE must consider in assessing the business environment of a particular country. Such norms may be both pervasive and highly integrated with the other characteristics of the country or region (Hofstede, 1993; Adler, 1991). A useful concept in discussing socio-cultural issues is the emic-etic distinction (Triandis & Berry, 1980). Emic refers to culture-specific aspects of concepts or behavior, and etic refers to culture-common aspects.

It is essential for MNEs to be aware of which business practices in any particular country or region are regarded as etic (i.e., transferable to that particular country or region) or emic (i.e., non-transferable and likely to be regarded as dysfunctional and rejected). It is equally imperative for MNEs to be aware of which specific human resource and management practices are likely to transfer abroad. This may require an analysis of cultural values deemed critical in international management. Such values as the degree of individualism, informality, materialism, change and time orientation may likely impact human resource practices such as appraisal and compensation (Phatak, 1992; Ronen, 1986; Adler, 1991).

This is not to suggest, however, that socio-cultural values are neither subject to change nor applicable to only some individuals in a society, but that MNEs must systematically consider them in managing their local units. Indeed, it appears that some human resource practices, e.g., group-oriented job design, can even work well in cultures that may be typically classified as high on individualism (Wickens, 1987; IBM/Towers Perrin, 1992). Nevertheless, emic-etic differences may influence the success of an MNE (Punnett & Ricks, 1992).

Thus, MNEs can be expected to increase their chances of success by understanding the socio-cultural systems of the regions in which they operate and share this knowledge among their units, e.g., through expatriate assignment preparation (Adler, 1991; Schneider, 1986; Laurent, 1986; Early, 1987; Tung, 1981; Adler & Bartholomew, 1992).

This success, however, may be enhanced by considering the fact that the socio-cultural factor is likely to interact with other Country/Regional Characteristics. Clearly, these factors are inter-related with culture, and it may be difficult at times, to make this differentiation when analyzing very complex events for MNEs such as the dramatic changes in Eastern Europe following the collapse of the Berlin Wall in 1989. Nevertheless, MNEs will develop policies.
course more human resource issues do arise for the expatriate in charge of this location, but they tend to be modest compared with similar issues faced by MNEs selecting a global form of organization.

Within the global form of organization there are several structural alternatives (Phatak, 1992; Bartlett & Ghoshal, 1991). These include the multinational structure, the global structure, the international structure, and the transnational structure.

**Global Form.** In the *multinational structure* the MNE is basically organized by geographical location and is very decentralized. This may range from several locations each serving single domestic markets to a few large regional locations each serving many markets (Roth, Schweiger, & Morrison, 1991). This structure has the ability to respond to local market needs, although perhaps at the loss of efficiency and economies of scale. It does facilitate the growth of the MNE as it does so through market place expansion. Strategic international human resource management needs thus become focused more on developing practices to local environments and staffing the local operations with local nationals (Dowling & Schuler, 1990; Bartlett & Ghoshal, 1991). The head of each operation, however, may be an expatriate but one with a considerable degree of autonomy. These local units tend to operate in a rather decentralized manner and can be relatively self-sufficient.

Two similar structures of MNEs described by Bartlett and Ghoshal (1991) are the global and the international. They differ in large part by the degree of centralization of decision making and the global scale of production. Whereas the *global structure* operates on a global scale in order to achieve economies of scale and to spread development costs over a larger area, the international MNE develops the ideas for operation and establishes local units, where needed, to implement them. In both cases, the major strategic decisions are made at the center, the corporate headquarters, and the local units carry out the directives. Whereas the *multinational structure* adapts well to sensing local market needs, the concerns of the global structure reflect a global agenda. This global agenda is driven by global economies of scale and is determined by the center. Strategic international human resource issues focus on operating the MNE as a singular global operation. Thus, the units tend to be coordinated by directives from the center. The local unit managers have modest levels of autonomy. Questions for strategic international human resource management that arise here include: How can the center ensure that the local employees will carry out the directives?; Does the center need to control the units with expatriate managers or will formalized policies and practices be sufficient?; and How can the MNE ensure that it gets (needed) sensitivity to local conditions?

The *transnational structure* basically seeks to obtain the advantages of both the multinational and global structures. It seeks economies of scale and local sensitivity. Bartlett and Ghoshal (1991) suggest that it even goes beyond this. They indicate that it seeks to facilitate global competitiveness, flexibility, and organizational learning. In doing so, the transnational MNE is actually more
P7(d). MNEs with a transnational structures will be concerned with SIHRM issues that focus on the selection and development of managers who effectively balance the local and the global perspectives.

Headquarter’s International Orientation

The attitudes and values of top management at headquarters are likely to be significant influence on strategic international human resource management. Heenam and Perlmutter (1979) classified top management’s attitudes and values into three orientations.

These three orientations can be briefly described in the following way:

- **Ethnocentric**: Few foreign subsidiaries have any autonomy, strategic decisions are made at headquarters, and key jobs at both domestic and foreign operations are held by headquarters management personnel. Subsidiaries, in other words, are managed by expatriates from the home country.

- **Polycentric**: The MNE treats each subsidiary as a distinct national entity with some decision-making autonomy. Subsidiaries are usually managed by local nationals who are seldom promoted to positions at headquarters.

- **Geocentric**: The organization ignores nationality in favor of ability. This approach to staffing without regard to nationality must be accompanied by a worldwide integrated business strategy to be successful. A subset of this orientation is referred to as *regiocentric*. This reflects the geographic strategy and structure of the MNE. Like the geocentric approach, it utilizes a wider pool of managers but in a limited way (personnel may move outside their countries but only within the particular geographic region). Regional managers may not be promoted to headquarters positions but enjoy a degree of regional autonomy in decision-making.

As these descriptions suggest, each orientation is likely to influence strategic international human resource management in a relatively specific way. For example, an MNE with an ethnocentric orientation would be likely, with regard to the management of local operations, to impose policies concerning staffing, compensation, performance appraisal, and management development which reflect parent country practice rather than sensitivity to the local environment (Banai, 1992; Phatak, 1992). Conversely, a polycentric orientation would lead to considerable autonomy with regard to HR decisions and activities in local operations. Thus, it would appear that headquarter’s international orientation is an important factor which influences internal operations within MNE business units and the development and maintenance of HR policies and practices.

Perhaps as importantly, the headquarter’s international orientation is likely to impact the nature of the relationships between the MNE center and the units. In some cases, e.g., the ethnocentric orientation, the center may construct a coordination through common HR policies. In other cases, e.g., the polycentric,
AN INTEGRATIVE FRAMEWORK

MNE’s Competitive Strategy

This factor, introduced earlier in this article, refers to the dominant competitive strategy which the MNE is using in each of its main product or service markets (cf. Morrison & Roth, 1992). The concept of competitive strategy is described by Porter (1985) as the essence of competitive advantage. Emerging from his discussion are three possible competitive strategies: innovation, quality enhancement, and cost reduction (Wright, 1987).

Briefly, the innovation strategy is used to develop products or services different from those of competitors; the primary focus here is on offering something new and different. Enhancing product and/or service quality is the primary focus of the quality enhancement strategy. In the cost reduction strategy, firms typically attempt to gain competitive advantage by being the lowest-cost producer. Although we have described these three competitive strategies as pure types applied to single business units, some overlap can obviously occur. That is, it is possible for large business units to pursue two or more competitive strategies simultaneously, for different product lines or services.

These competitive strategies are included here because of their impact on strategic human resource issues. Execution of competitive strategies depends upon employees behaving in ways consistent with the strategic requirements. Facilitating these behaviors are human resource practices that signal and reward the needed behaviors (Jackson et al., 1989).

Models linking competitive strategy and human resource management practices have been identified elsewhere (Schuler & Jackson, 1987). These models have developed typologies of human resource practices for different competitive strategies such as innovation, quality enhancement and cost reduction. The rationale for the specific human resource practices is based upon employee role behaviors necessary because of the competitive strategy. These models, however, have basically been applied to the domestic (i.e., U.S.) environment. MNEs, however, are faced with the need to apply human resource practices in several locations of the international environment.

There is some evidence to suggest a common approach to managing human resources as a function of the competitive strategy, i.e., the “competitive strategy imperative” described earlier. Case studies from England (Scullion, 1991; Wickens, 1987); Belgium (Hiltrop, 1992); Australia (Dunphy & Stace, 1991); Switzerland (Krulis-Randa, 1991); and Japan (Pucik, 1984, 1992), point to the existence of a common set of needed employee role characteristics for quality improvement and a common set of human resource practices for those characteristics.

If competitive strategies depend upon similar behaviors regardless of location of operation, then units pursuing similar strategies are likely to benefit by exchanging information on their HR policies and practices. In this situation, having some units serve as centers of excellence, i.e. creators of knowledge, and thus becoming benchmarks for the other units for specific practices, may serve to benefit all units (Pucik et al., 1992). Regardless of the specific competitive

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The results reported by Dowling (1989) also suggest that the MNE with limited international experience will assume that one set of HR practices can work everywhere, thus it will have a predominantly ethnocentric IHR orientation. Propositions suggested by this discussion include:

**P10(a).** *MNEs with limited experience in managing international operations will be less likely to change their strategic international HR policies and practices to accommodate local or regional demands.*

**P10(b).** *MNEs with more experience will be more likely to be effective in operating a more complex organizational structure than MNEs with less experience.*

**Contribution of The Integrative Framework**

As had been outlined earlier in this article, the integrative framework presented shows the influences and interrelationships of the factors relevant to Strategic International Human Resource Management. Much of the existing research literature on international HRM has focused on expatriate assignments and the management of expatriates. The next task for researchers is to examine the influence of exogenous and endogenous factors on strategic international HRM and to consider the consequences of these influences and interrelationships. This framework attempts to offer a conceptual map which describes a number of interrelationships and influences and which offer a number of propositions for future research.

Our framework may also enable academics and HR professionals to identify, analyze and manage the factors involved in SIHRM. In this context we define strategic international human resource management as developing a fit between exogenous and endogenous factors and balancing the competing demands of global versus local requirements, and the needs of coordination, control, and autonomy (Adler and Ghadar, 1990).

**Implications for Academics and HR Professionals**

**For Academics**

As suggested by Sundaram and Black (1992), studying the multinational enterprise goes significantly beyond studying the domestic enterprise. While it can certainly benefit from knowledge of the domestic enterprise, the MNE is unique and does warrant separate attention and focus. We argued here that this applies equally as well to the study of strategic human resource management, particularly at a time when a current theme in human resource management practice is to "link to the needs of the business." Thus we offered an integrative framework for the study and understanding of strategic international human resource management. While this builds on the work of strategic human resource management (Wright & McMahan, 1992; Schuler, 1992), it incorporates several features unique to the international (global) context (Sundaram & Black, 1992; Adler & Bartholomew, 1992).
depends first and foremost on the quality of the MNE's human resources and how effectively the enterprise's human resources are managed and developed (Bartlett & Ghoshal, 1992).

Effectively managing an MNE's human resources is a complex task which is subject to a variety of exogenous and endogenous factors as illustrated in Figure 1. While the specific parts and propositions of the integrative framework shown in Figure 1 remain to be empirically investigated, practitioners have been operating in this reality in their attempts to manage their MNE's human resources. In many cases, guides for directions and answers to questions are elusive at best. There appear to be too many contingencies, too many uncontrollable factors and perhaps even too many unknown factors. Our attempt at an integrative framework is a partial response to this situation. By offering a framework, we hope to reduce the unknowns, narrow the relevant contingencies and make more manageable some of the uncontrollable factors. Our hope also is to convey to professionals the academic state of the field of strategic international human resource management so that this state can be revised, based in part on the experience of HR professionals.

Conclusion

The issues, challenges and propositions associated with MNEs are different from those of domestic firms (Sundaram & Black, 1992). This applies to all functional areas of managing an MNE, particularly human resource management.

MNEs confront many international human resource management issues and challenges. Those that are linked to the unique global strategic needs of these enterprises were designated in this article to be those of strategic international human resource management. Consistent with the increased recognition of the importance of strategic human resource management (Wright & McMahan, 1992), this article sought to present a framework for thinking about strategic international human resource management. Building upon some of the theoretical and conceptual arguments used by Wright and McMahan (1992) and Sundaram and Black (1992), we offered several testable propositions.

Because the field of strategic international human resource management is an emerging one, we utilized many sources of information and research, some academic and some applied, that could be fruitfully brought to bear upon our integrated framework. As suggested by Sundaram and Black (1992), approaching the study of MNEs requires a broad perspective and a set of multidisciplinary tools: e.g., business, psychology, sociology, anthropology, law and organizational theory. In approaching the area it is useful to identify and incorporate all the exogenous and endogenous factors that might be applicable to a specific issue or activity in strategic international human resource management. At this time, the propositions offered here might be best thought of as tentative, subject to revision and modification. While we have tried to incorporate as many relevant factors as possible, we may have omitted some. We may have also failed to generate all the appropriate and useful propositions.
Hempstead, U.K.: Harvester Wheatsheaf -Prentice Hall. Note that we are not addressing the stages of internationalization specifically. While these tend to incorporate some of the structural alternatives described here, they also include a discussion of such issues as sales subsidiaries and export offices (Phatak, 1992) which, while having some effect on the fundamental objective of an MNEs, have only a modest impact on SIHRM. Similarly, this discussion does not include SIHRM issues that are associated with alliances and international joint ventures (IJVs) of MNEs (see Slocum & Lei, 1991). While having an impact on SIHRM, they are beyond the preview of this article. For a review of the SIHRM issues in IJVs see R. Schuler and E. Van Sluijs, (1992), Davidson-Marley BV: Establishing and Operating an International Joint Venture. European Management Journal, (December), 428-437; and Y. Zeira and O. Shenkar, (1990), Interactive and specific parent characteristic: Implications for management and human resources in international joint ventures. Management International Review, 30, 7-22. This discussion also does not include a discussion of the possible interaction effects between MNE structure (design) and strategy. For a review of this subject, however, see Roth, Schweiger and Morrison (1991).

5. This description is based on D.A. Ondrack (1985) International human resources management in European and North American firms, International Studies of Management and Organization, 15(1), 6-32. These descriptions are based upon the orientations of top management originally articulated by Perlmutter and then expanded upon Heenan and Reynolds (personal communication with Calvin Reynolds, 28 January 1993). In the subsequent expansion of these ideas, the relationship of compensation practices to these top management orientations was developed.


References


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AN INTEGRATIVE FRAMEWORK