

# **IHRM Approaches Of German MNEs And Their Subsidiaries In Thailand, Indonesia And Singapore**

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## ABSTRACT

This paper analyses the International Human Resource Management (IHRM) approaches that German multinational enterprises (MNEs) employ when transferring human resource policies and practices from German Headquarters (HQ) to their subsidiaries in Asia. The exploratory study uses an analysis of twenty four in depth interviews with Human Resource directors and line managers in German Fortune Global 500 industrial companies from -electrical, mechanical and chemical- industries and their subsidiaries. The results indicate that companies seem to differentiate when they are implementing an IHRM approach by strategic importance per issue. Country or subsidiary best practice is usually not integrated in HQ policies.

Key words: International Human Resource Management; German multinational companies; Asian HR practices;

## INTRODUCTION

IHRM definitions are wide-ranging and for some, IHRM issues explore aspects of HRM in MNEs (Briscoe 1995) while for others '*strategic international human resource management is no more than the application of SHRM to the international or global business context*' (Nankervis, Compton & Baird 2002, p.617). Much IHRM work has focused on the areas of international staffing and management development, however IHRM should not neglect many related areas (Rowley & Benson 2002). Another approach focuses on comparative industrial relations (IR) and HRM, where attempts are made to describe, compare, and analyse HRM systems and practices across countries (Verma, Kochan & Lansbury 1995). In this study a standard definition of international human resource management is used

*IHRM consists of a collection of policies and practices that a multinational enterprise uses to manage the local and non-local employees it has in countries other than their home countries.*

(Adapted from: Dowling, Schuler & Welch 1994)

The integration of more comparative views, approaches and perspectives within IHRM can be useful, and helps in providing more insight into what is 'normal' as opposed to 'exceptional' in HRM practices and systems (Nankervis, Compton & Baird 2002; Rowley & Benson 2002). However, IHRM should not become a description of fragmented responses to distinctive national problems nor about the 'copying' of HRM practices, as many of these practices suit national cultures and institutions without necessarily being transferable. Indeed, issues of concern in IHRM are those of consistency or standardisation, versus customisation or adaptation, within diverse social and cultural environments (Nankervis, Compton & Baird 2002).

### **Existing IHRM Models**

Several conceptual models seek to describe and predict how MNEs might conduct IHRM on an abstract level from a macro, strategic perspective (Adler & Ghadar 1990; Evans & Lorange 1989; Evans, Pucik & Barsoux 2002; Milliman, Von Glinow & Nathan 1991; Nankervis, Compton & Baird 2002; Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996; Welch 1994). What MNEs actually do and, more importantly, how they do it is not so well documented.

Practitioners' literature seems to struggle with the description of how the IHRM system 'established itself' in the wake of business expansion, rather than being aware of a choice (Napier & Vu 1998; Roberts, B. 2000; Rynes, Bartunek & Daft 2001). Authors of early conceptual models argue that the central issue is to find the best fit between the MNE's overall strategy and its IHRM policy, not to identify the best overall IHRM policy (Adler & Ghadar 1990; Milliman, Von Glinow & Nathan 1991). Later models specify other internal and external factors to explain MNEs' choices of IHRM systems. Specified factors include the industry in which a MNE is operating (Schuler et al 1993, 2002), the MNE's international life cycle and experience (Adler & Ghadar 1990; Milliman, Von Glinow & Nathan 1991; Nankervis, Compton & Baird 2002; Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996), the organisational structure (Schuler et al 1993, 2002), the HQ's international orientation (Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996), the host country's cultural and legal environments (Adler & Ghadar 1990; Milliman, Von Glinow & Nathan 1991; Schuler et al 1993, 2002; Taylor, Beechler & Napier 1996), the resources or strategic role of affiliates and certain employee groups (Nankervis, Compton & Baird 2002; Taylor, Beechler & Napier 1996).

Schuler, Budhwar and Florkowski (2002) point out that one needs to use multiple levels of analysis when studying IHRM, including the external cultural and economic environment as well as the industry, the firm and the individual. The focus of this study is on the HQ's international orientation, the home and host country's cultural and legal environments and the roles of HQ and subsidiary staff in the transfer process. It is expected, and in line with previous findings (Adler 2001; Bartlett & Ghoshal 1992; Verma, Kochan & Lansbury 1995) that these three focus points can be used to explain the current transfer processes and for suggesting improvements. In brief, there are many well documented IHRM models; practical descriptions of IHRM are still limited. Next, IHRM approaches at large are discussed.

### **IHRM Orientations And Approaches**

Three different IHRM orientations in MNEs are exportive, adaptive and integrative (Briscoe 1995; Dowling, Schuler & Welch 1999; Taylor, Beechler & Napier 1996). These orientations determine the company's overall HR approach to managing the tension between integration, that is internal consistency, and differentiation, that is external consistency. An **exportive** IHRM orientation is one in which the parent firm's HRM system is being transferred to its different affiliates and emphasises integration across all affiliates. The negative aspect of such an exportive IHRM approach is its inflexibility and may lead to an ethnocentric orientation from HQ and as a consequence, affiliates might be opposed to the imposed practice (Adler 2001; Taylor, Beechler & Napier 1996).

The second, an **adaptive** IHRM orientation is one in which each affiliate develops its own HRM system, reflecting the local environment. Differentiation is being emphasised with almost no transfer of HRM philosophy, policies or practices, either from the parent firm to its affiliates or between affiliates (Taylor, Beechler & Napier 1996). The negative aspect of such an adaptive IHRM approach is its lack of globally valid standards and possibly a lot of inefficiency due to the multiple creations of similar policies and systems (Roberts, B. 2000).

The third, an **integrative** IHRM orientation, both combines characteristics of the parent company's HRM system with those of its international affiliates, and attempts to take 'the best' HRM approaches and use them throughout the organisation. Transfer of HRM policies and practices occurs and can go in any direction, between affiliates or from one affiliate to

HQ or from HQ to an affiliate (Kostova 1999; Taylor, Beechler & Napier 1996). The possible negative aspect is that the final IHRM policies of an MNE could represent the lowest common denominator rather than setting international standards (Kostova 1999; Rowley & Benson 2002).

The three orientations, namely exportive, adaptive and integrative approaches, or a combination thereof, varying either by issue or country, for example exportive to some countries or adaptive towards others, represent three basic choices for managers, forming an overall IHRM approach of their MNE. Many people in the field claim that their company uses an exportive, ethnocentric approach (Adler 2001) or an adaptive approach, which means the respective country subsidiary is basically left on its own (Dowling, Schuler & Welch 1999). Having identified the different options of IHRM in terms of an exportive, adaptive and integrative approach, the question is how to decide which option to choose.

In examining the different IHRM models, three factors seem to be crucial. All models mention the need for an IHRM system to balance the tension between global integration and local responsiveness (Bartlett & Ghoshal 1989; Evans, Pucik & Barsoux 2002). The second crucial factor in IHRM models is the cultural context of HQ and its different subsidiaries with their different national cultures and the effects on organisational culture (Adler 2001; Hofstede 1991, 1993, 2001; Roberts 2003). A third factor examines the power dynamics within the MNE. This factor is crucial because the relationship between HQ and subsidiary influences to a great extent the acceptance of a decision by the subsidiary's HR team (Adler 2001; Bartlett & Ghoshal 1992; Briscoe 1995). In closing, it can be stated that very little of the available literature examines how the actual transfer of policies and practices is organised and managed. The models and choices are well researched and documented. The analysis or even the mere description of the implementation is still in its infancy (Briscoe 1995; 2001; Napier & Vu 1998) and is being addressed in this study.

The research questions that emerge from this background include a) where are HR policies decided in the MNE, b) how is subsidiary and country expertise integrated into HQs, c) is there a network among subsidiaries and d) what are the perceptions of subsidiaries regarding the HR effectiveness of other German and non-German MNEs in their country.

## METHOD

First, the MNEs are selected based on the criteria that MNEs participating in this study are German Fortune Global 500 industrial companies that have a substantial amount of their business outside Germany and have subsidiaries in Singapore, Thailand and Indonesia (see Table 5). All three MNEs have a history in Germany of well over 100 years with their international growth taking shape predominantly after World War II. Currently, all three MNEs have more than 50% of their employees and/or business volume outside of Germany. They have wholly foreign owned subsidiaries in more than fifty countries worldwide. The biggest market and subsidiary of all three MNEs is in the United States, while the biggest market and subsidiary in Asia of all three MNEs is in China. This leads in all cases to an implicit understanding that while Singapore, Thailand and Indonesia are important markets, they do not receive the attention and resources from Headquarters (HQ) in Germany that they would like to receive. The cases and countries were further selected due to the accessibility of the companies and countries for the researchers. Each MNEs HQ is defined as a main case and each country subsidiary of that MNE is defined as an embedded case. Based on this definition, this study is a multiple case study, involving three main cases in Germany and nine embedded cases (three each in Singapore, Thailand and Indonesia).

**Table 1: Background of Main Cases**

Case code	Industry	Part of Fortune Global 500	Subsidiaries in Singapore, Thailand and Indonesia?	More than 50% of turnover and/or employees outside Germany?
E	Electrical	Yes	Yes	Yes
M	Mechanical	Yes	Yes	Yes
C	Chemical	Yes	Yes	Yes

(Source: Fortune 2004; Stehle 2004)

To preserve confidentiality and to maximise ease of reading, the main cases are coded as cases 'E' for electrical, 'M' for mechanical and 'C' for chemical, based on the industries in which the main case MNEs are active. The embedded cases are numbered so that each main case has four distinct numbers, for example 'E', the main case, consists of case 'E1' (Headquarters in Germany), 'E2' (Singapore), 'E3' (Thailand) and 'E4' (Indonesia). Interview partners are grouped by their function, working as a line manager, including the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) as 'L' or in HR, 'H'. Information obtained from other sources are coded as 'O'. Interviewing HR directors and line

managers such as CEOs and CFOs assures that the interviewees are directly involved in and affected by the transfer of HR policies and practices from HQ to subsidiary. Two managers of each participating MNE's subsidiary in Singapore, Thailand and Indonesia, as well as two from each HQ, are selected. Interview partners from HQ and from line management in the researched countries were predominantly male (13 interviewees out of 15 respondents) and of German nationality (14 interviewees out of 15 respondents), while the HR directors in all 9 embedded cases involving Asian subsidiaries were local nationals with a majority being females (6 out of 9).

The principal source of data comes from the 24 in-depth interviews with selected managers of three German MNEs at HQ and subsidiaries in Singapore, Thailand and Indonesia as well as field observations in every country by the first researcher. The analysis of relevant documents, handed to this researcher by the interview partners, further augments triangulation (see Miles & Huberman 1994; Stake 1995; Yin 2003). A case study protocol is developed in this study to control the contextual environment of the case study (Chew 2001; Yin 2003). The next operational step is to follow up with the interviewees through e-mail and fax to explain the research, assure them about confidentiality and make arrangements for the interviews.

The **interview protocol**: The exploratory interviews, as well as discussions with and feedback from two additional academics in the field of international HR and one business practitioner not otherwise involved in the study, lead to an interview protocol with relevant questions, subsequently tested in two pilot interviews. There are two interview protocols with questions on the same content, one for HQ, one for the subsidiaries. The differences between these two protocols are minor and mostly address the different perspectives of HQ and subsidiaries.

Each interview begins with a general introduction to acquaint the respondent with the interview purpose and agenda. Part A of the interview protocol introduces the research project and outlines the ethical considerations. Part B contains the opening questions to build rapport and allows the interviewees to tell their experiences in their own words without any prompting or input from the researcher (Patton 1990; Stake 1995). The other sections deal with specific research questions and two of these research questions are addressed in this

paper. The semi-structured interviews start with open, general questions and then focus more and more on the specifics of the identified research issues (Perry 1998, Zikmund 2000).

This study presents two forms of case analysis. First, **within-case** analysis compares data and patterns within one main case, drawing on the embedded cases (Scholz & Tietje 2002). This reveals the pattern in, or approach to, transfer of HR policies and practices inside one MNE to the different subsidiaries. The common factor is the organisational culture. Second, **cross-case** analysis, employed here mostly on the level of the embedded cases, compares data and patterns within one country across different MNEs (Scholz & Tietje 2002; Yin 2003). This reveals specific approaches in one country and the common factor is the national culture. These could be common traits of interview partners, for example educational background, position or gender. In this study the most valuable analysis comes from within-case analysis and cross-case analysis. In other words, the twelve embedded cases are first analysed individually, using triangulation of data methods, and then two forms of case analysis are used to highlight patterns and themes emerging from the data.

## RESULTS

### HR Policy Decision Body In The MNE

The three MNEs under study each have a central Human Resources (HR) department in Headquarters (HQ) and it is there that global policies are made and decided upon. There are differences between the cases with respect to the rigour of HQ policy formulation and how the subsidiaries perceive these policies, as detailed in Table 2:

**Table 2: Decision making in MNE**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>(1) HQ Germany</b>	Policies are made in the HQ by central HR; regions have a platform to give input but do not yet use it effectively.	Policies are made in the HQ by central HR, yet only on a strategic level, no platform for regions to give input, yet input would be welcome.	Policies used to be made locally, yet with international HR coming up, policy making moves to HQ central HR who is installing a platform for regional input.

(2) <b>Singapore</b>	Policies are given by HQ and implemented by subsidiary.	Policies are made in HQ and subsidiary struggles to make them locally operational.	HQ assumes a more and more active role, so far all HR has been local.
(3) <b>Thailand</b>	Policies are suggested by HQ and finally modified and decided in subsidiary.	Policies are made in HQ, but subsidiary has to make it operational.	HQ assumes a more and more active role, so far all HR has been local, with Thailand being a trendsetter for the region.
(4) <b>Indonesia</b>	Policies are given by HQ and implemented by subsidiary.	Policies are made in HQ, but subsidiary has to make it operational.	HQ assumes more and more active role, so far all HR has been local.

(Source: Stehle 2004)

**Within-case analysis** indicates that in case E policies are made in HQ and communicated to the subsidiaries. There is a formal platform to deal with the input of the subsidiaries to policy formulation, yet this platform is not yet used by the subsidiaries. HQ and the subsidiaries in Singapore and Indonesia perceive the policies set by HQ as binding, while the subsidiary in Thailand perceives them as suggestions that can be modified and decided upon by the subsidiary.

In case M policies are made in HQ and communicated to the subsidiaries. Case M HQ welcomes input in principle, but has no platform for, and no example of input from the subsidiaries. HQ and the subsidiaries in Thailand and Indonesia agree that policies should be made on a strategic level and have to be made operational by the subsidiaries, while the subsidiary in Singapore perceives the policies as unreasonable and struggles to make them operational. The interviews with the CEO and the HR director of the subsidiary of case M in Singapore are different from all the other interviews. The high level of aggression towards, and disillusion with, HQ, displayed mostly by the CEO, is both challenging for the interviewer and provides significantly more negative answers than any other interview in this study.

Finally, case C has no history of global policy formulation and is beginning this process at the time of research. The subsidiaries in Singapore, Thailand and Indonesia welcome this more

active role of HQ. The subsidiary in Thailand regards itself as a trendsetter for case C in HR policies and practices in Asia.

**Cross-case analysis** shows that HR policies are made in HQ of all three MNEs under study. Case E has a process and more detailed policies, case M defines policies on a general and strategic level and case C is starting the process of HQ policy formulation. The subsidiaries in Thailand are the most self-confident, seeing themselves as trendsetters (C3) and in a position to decide whether or not to accept a policy (E3). The subsidiaries in Singapore and Indonesia are closely in line with HQ thinking, with the exception of the subsidiary of case M in Singapore, who feels that the policies from HQ are both unreasonable and not fitting for Singapore. In brief, HR policy formulation on a strategic level is carried out in and by HQ in an **exportive** way. Having reviewed the policies on a strategic and thus general level, the next question is geared towards finding out how free the subsidiaries are in applying and adapting these policies. Responses are summed up in table 3:

**Table 3: Subsidiaries' freedom to adapt policies**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>(1) HQ Germany</b>	Regions are free to adapt HR policies according to their needs. Regions have to report and justify their decisions by using centrally set standards. Standardisation is highly recommended.	Regions are free operationally as long as they adhere to the five guiding principles set by HQ. No checks by HQ if the guiding principles are adhered to in local adaptation of policies.	Regions are free, mainly due to a past lack of coordination. HQ seeks to establish standards to have a common approach.
<b>(2) Singapore</b>	Subsidiary is free to adapt most things and would like more freedom to decide.	Subsidiary has no freedom to adapt, is bound to the rules from HQ.	Subsidiaries have to make own policies due to a lack of corporate standards and wants more input from HQ - in Singapore, Thailand and Indonesia.
<b>(3) Thailand</b>	Subsidiary is free to adapt most things and would like more freedom to decide.	Subsidiaries are free to adapt in both Thailand and Indonesia	
<b>(4) Indonesia</b>	Wants more practical suggestions on implementation.		

(Source: Stehle 2004)

In cases E and M, HQs are aware of the need for policies to be translated into local practices, yet they have different strategies in following up practices in the subsidiaries. The subsidiaries recognise and accept the freedom but need to translate the strategic policies into operational practices.

**Within-case analysis** shows that case E requires the subsidiaries to report in a standardised way and strongly suggests using standards across the regions. The subsidiaries agree they have the freedom to adapt policies locally, with the subsidiaries in Thailand and Indonesia wanting more practical guidance as to how to adapt policies. Case M trusts that the adaptation and application is satisfactory when the five guiding principles, defined as the '*Big Five HR principles at M*' (MO) are adhered to. The subsidiaries in Thailand and Indonesia regard themselves as rather free to adapt the policies from HQ, while the subsidiary in Singapore sees no such freedom. In part this can be attributed to the fact that the Singapore subsidiary, while being a separate legal entity, is not managed like other regional companies, but rather like a representative office. Case C HQ regards the regions as having been free to act in the past, yet sees the push for internationalisation mainly with a view to future standardisation. This is recognised and welcomed by the subsidiaries who want more input on all levels from HQ.

The biggest difference in policy deployment from HQ is strategies for follow up of implementation, as **cross-case analysis** reveals. Case E requires standardised reporting, while case M and C trust the subsidiaries to adhere to principles, yet they do not follow up. On the subsidiary level, case C subsidiaries welcome and look forward to more HQ guidance, while case E subsidiaries want more freedom to adapt policies. General agreement among the interviewed subsidiaries is that '*policies from HQ should have practical suggestions and value*' (M3H). In brief, HR policy translation from a strategic level to operable practices is performed in and by the subsidiaries, and the subsidiaries would like more practical guidance from HQ.

### **Integration Of Country Best Practices In HQ Policies**

The integration of country best practices in the formulation of corporate policies is not well established in the cases E, M and C as is outlined in table 4:

**Table 4: Integration of country best practices in HQ policies**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>(1) HQ Germany</b>	Yes, but the process in place to ensure this integration is not used to its fullest potential by the subsidiaries.	Not currently	Not currently, future process will integrate country best practices.
<b>(2) Subsidiaries</b>	No, process not suitable.	No	Singapore, Indonesia: No. Thailand sees itself as best practice and seeks to influence corporate policies.

(Source: Stehle 2004)

**Within-case analysis** points to case E HQ having a platform and process for best practice sharing that is open to the subsidiaries, which in turn do not use the process, which they consider not suitable for best practice sharing. The respondents in the HQ are aware of the lack of integration of country best practice in its HR policies. However, HQ places the responsibility to provide those best practices and expertise within the countries, since the platform with its HR chairperson and HR Asia coach already does provide the opportunity for the individual countries to share their best practice. The respondents of the subsidiaries all express concerns about the process, being *'too formal'* (E2H), or choosing inappropriate language *'we do not want to put our colleagues off, 'good practice' would be better than 'best practice''* (E4H).

The HQ respondents of case M admit that country expertise and best practices of the countries under study are currently not integrated in the formulation of HR policies. Rather, corporate policies are made, taking the German situation and the situation of those countries where big production facilities are located, such as the US, into consideration. Case C HQ respondents are aware that at the time of this study there is little or no integration of international best practice in the formulation of policies. Case C HQ wants to change that with its new push towards internationalisation and regional cooperation in the field of HR, yet the process is currently at the planning stage only (CO). The subsidiary in Thailand, more so through the CEO than the HR director, takes an active interest in making its local HR policies and practices known in HQ and has a reputation for *'being the most active in HR in Asia'* (C1H, C3L).

**Cross-case analysis** at HQ level reveals that while best practice integration in policy formulation would be ‘nice to have’, it is either not actively sought (case M), carried out with a process that the subsidiaries are not at ease with (case E), or achieved by going through the German expatriate CEO (case C). The subsidiaries on the other hand, do not see the need or the desire, to have their best practice incorporated in HQ policies and guidelines. In the words of one HR director, HQ ‘*should help us and not ask us to provide best practice*’ (E2H). Best practice sharing is seen as a powerful tool for regional cooperation, which leads to the next issue regarding networking among subsidiaries.

### **Networking Among Subsidiaries Of One MNE In Various Countries**

The HQ of all three main cases facilitates and encourages the networking between the individual countries through regional HR meetings, as outlined in table 5:

**Table 5: Networking amongst subsidiaries in the region**

	<b>Case E</b>	<b>Case M</b>	<b>Case C</b>
<b>HR regional meetings</b>	Twice a year in the region, funded and organised by HQ at first, now regional responsibility.	Infrequent, funded and organised by HQ and located in Germany.	Approx. twice a year in the region, funded and organised by HQ, only recently established.
<b>other</b>	Active group in e-mailing, social visits, project help, only after personal contact in regional meeting.	Beginning to know each other, the well established subsidiaries help the newer ones, e.g. Thailand shares with Indonesia.	Beginning to know each other. People exchange to align individual topics, e.g. training.

(Source: Stehle 2004)

The approach used is to organise meetings in the region, as in cases E and C, or at HQ, as in case M, where, in addition to formal meeting content, informal networking and socialising is encouraged. Participants at such meetings are the HR directors from each country subsidiary in Asia and selected HQ HR managers. Case C has only recently implemented such a forum of regional meetings, with one having taken place and the next one planned less than a year after the first meeting. Case E has a well established process of having two such regional meetings per year at alternating locations in Asia and once every two years at HQ in Germany, in conjunction with a global HR conference. The responsibility to organise and

fund these meetings has shifted from HQ to the region, facilitated by the regional HR chairman. Case M is *'getting the relevant people together when the need arises'* (M1H), usually in Germany. Interviews at HQ (E, M, C) suggest that the meetings themselves are the *'core of the networking'* (M1H).

**Cross-case analysis** at subsidiary level suggests that the formal meetings are a vehicle to get to know each other and that *'real networking'* (E2H) takes place informally without the HQ involvement. This real networking has both a social and a professional dimension. First, the HR directors get to know each other, meet informally, share backgrounds during the regional meetings and go shopping or sight seeing together. After this socialising and trust building, the exchange of information via e-mail or telephone begins, with concrete help in the form of exchanging results, telephone conferences or sending an employee to share experience for a project. To avoid the message that one country is better than another, *'it is important to have a balance of give and take, of learning and teaching'* (C4H). When one subsidiary is newly established and another has been in the same situation a few years before, *'it is acceptable that they come and teach us and we will do the same for the next country'* (M4H). In brief, HQ supports networking by organising regional HR conferences. These conferences are welcomed by the regions as a platform to get to know each other. The networking itself takes place among the subsidiaries without involving HQ.

### **Differences In HR From Other German Firms In The Country**

The relevant question in the interview protocol has two parts. The first part asks about what other German companies in Singapore, Thailand and Indonesia are doing differently in terms of HR, and the second part asks how the interview partner would rate their HR effectiveness in the respective country (see Table 6):

**Table 6: HR differences from other German MNEs HR in Singapore, Thailand and Indonesia**

	Case E	Case M	Case C
<b>HQ Germany*</b>	More international HR than other firms, more regional organisation and structure than other firms.	Lose network with other large German MNEs in Germany, no knowledge about differences in Asia.	Close network of chemical industry, no difference, national and international, from other chemical firms, no knowledge about other industries.
<b>Singapore**</b>	no big difference from others	Others have more local freedom, subsidiary depends on HQ.	no big difference from others
<b>Thailand**</b>	no big difference from others, case E has the most sophisticated HR.		
<b>Indonesia**</b>	no big difference from others	M very new, others are better established.	no big difference from others

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Stehle 2004)

The HQ respondents of all three main cases refer to informal meetings within the German electrical, mechanical and chemical industry respectively. These HR circles that meet infrequently, and whose results are not documented, seem to be rather strong in the chemical industry, with one interview participant saying: *'The chemical industry has a close network and we are all personal friends. Therefore our approach is intentionally aligned with other chemical companies' HR approach, both national and international'* (C1H). Case E HQ considers itself as the German trendsetter of internationalising HR, a position that is assumed to be true by the interviewees of cases M and C without having any specific examples to justify this belief. In general, none of the interview partners, at either HQ or subsidiary, has substantial knowledge about the HR policies and practices of other German MNEs in Singapore, Thailand and Indonesia.

**Cross-case analysis** at subsidiary level puts case E in Thailand in a position of being recognised as having the most sophisticated HR of the German MNEs in Thailand, though again, no concrete example of this sophistication is available. *'They just do more and have more possibilities'* (M3H) describes this finding. In Indonesia no big differences between the German MNEs in HR terms are visible, a credible perception, since two of the interviewed

HR directors previously had similar posts in other German MNEs in Indonesia. Case M is rather new in Indonesia and thus regards itself as not so established as the others, while the subsidiary of case M in Singapore perceives itself once again at a disadvantage compared to others because it regards itself as too tightly governed by HQ. When asked about the perceived effectiveness of other German MNEs in Singapore, Thailand and Indonesia, the results are mostly in line with the findings discussed above, as outlined in table 7:

**Table 7: Perceived effectiveness of other German MNEs HR in Singapore, Thailand and Indonesia**

	<i>others much worse</i>	<i>others worse</i>	<i>same as MNE</i>	<i>others better</i>	<i>others far better</i>
<b>HQ Germany*</b>		E	M, C		
<b>Singapore**</b>			E, C		M
<b>Thailand**</b>		E (E3L)	M, C	E (E3H)	
<b>Indonesia**</b>			E, C	M	

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Stehle 2004)

The HR director of case E in Thailand argues that other German MNEs in Thailand have a more effective international HR, while the HR directors of cases M and C in Thailand readily agree that case E ‘*is the first among equals in HR in Thailand*’ (M3H). Further probing reveals that the higher degree of sophistication discussed above, is something positive and admirable for cases M and C, while it reflects a complex and complicated, yet ineffective structure for the HR director of case E.

### **Differences In HR From Non-German Firms In The Country**

Shifting the focus from other German MNEs to other non-German MNEs, the relevant question in the interview protocol again has two parts. The first part asks about what other non-German companies in Singapore, Thailand and Indonesia are doing differently in terms of HR and where their origin is. The second part enquires about how the interview partner would rate their HR effectiveness in the respective country. The interview partners at the HQ of all three main cases have little or no specific information regarding what other non-German companies are doing in international HR in Singapore, Thailand or Indonesia. The view of the HQ respondents in all three cases is that the US style is different from the German style in

that the US is assumed to be more exportive of its national HR policies and practices. The assumption on quality is that *'we are probably just as good or bad as the others'* (M1H) and there is no intention to follow up on that assumption with a more structured approach. Tables 8 and 9 give an overview over differences and perceived effectiveness:

**Table 8: HR differences of non-German MNEs HR in Singapore, Thailand and Indonesia**

	Case E	Case M	Case C
<b>HQ Germany*</b>	More international HR than any other firm, more regional organisation and structure than other firms.	No knowledge about differences in Asia, assumption is that the US is more focused on the US policies.	
<b>Singapore** Thailand** Indonesia**</b>	Japanese MNEs are more rigid, and not adapting, US firms have more practical guidelines.		

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Stehle 2004)

**Table 9: Perceived effectiveness of other non-German MNEs HR in Singapore, Thailand and Indonesia**

	<i>others much worse</i>	<i>others worse</i>	<i>same as MNE</i>	<i>others better</i>	<i>others far better</i>
<b>HQ Germany*</b>			all; M,C,E		
<b>Singapore**</b>		J: E,M,C	US: E,M,C		
<b>Thailand**</b>		J: E,M,C		US: E,M,C	
<b>Indonesia**</b>		J: E,M,C		US: E,M,C	

J: Japanese MNEs

US: US American MNEs

\*= referring to all three Asian countries under study

\*\*= referring to their country only

(Source: Stehle 2004)

Case E has a report by an internationally renowned HR consultancy, comparing its international HR approach in general as published, not necessarily as practised, with that of its major US competitor. The report states that case E is *'most advanced in internationalising HR'* (EO), yet that report does not look at Asia specifically, let alone individual countries.

Subsidiaries in Thailand and Indonesia have a very distinct view that the MNEs under study are more effective in terms of HR than Japanese companies and less effective than US companies. *'The Japanese do everything like in Japan and all documents are in Japanese and they are not willing to adapt in any way'* (M3H) says one manager who worked for a

Japanese company before joining M. The US companies on the other hand, are regarded as more effective by the subsidiaries in Thailand and Indonesia *'because they have how-to-manuals that are easy to understand and apply and local HR does not have to invent everything here, plus they are open to adapt if they are told something does not work in Thailand'* (E3H). The subsidiaries in Singapore are of the opinion that the US approach may be different, yet equally as effective as the German approach. The answers are unanimous along national clusters. While the German HQ view is that the US approach is more exportive, understood to be negative, the subsidiary view from Thailand and Indonesia is that the US approach is more helpful because it tells them what to do, and how to do it, in more concrete terms.

In summary, there is little evidence of factual knowledge of differences in HR between the MNEs under study and MNEs from other countries, both in HQ and the subsidiaries. The perception across the interviews in HQ is that the HR effectiveness of the MNE under study is comparable to the HR effectiveness of other German MNEs, while subsidiaries think that German MNEs are more effective in HR than Japanese MNEs and less effective in HR than US MNEs.

## DISCUSSION

**Summary of findings.** During the data gathering stage information is sought as to where, and by whom, HR policies are decided in the MNE, if and how country expertise is integrated into HQ and whether there is a network among subsidiaries. Furthermore, respondents from subsidiaries are asked to comment on their knowledge and perception of HR effectiveness of other German and non-German MNEs in their country.

The MNEs studied in cases E, M and C are in the early stages of internationalising their HR. Case E is the most advanced, with an internationalised HR structure well in place, while case M and especially case C have put new HR structures in place in the last one or two years, and consequently their experience with these structures is still limited. HR policy formulations on a strategic level are made in and by HQ in an **exportive** way, and these strategic and general policies are then given to the subsidiaries to translate into locally appropriate practices. The subsidiaries in general and especially the newly established subsidiaries of cases M and C would like more practical guidance from HQ, with respect to applying and implementing HR

policies. Whether a specific HR issue is dealt with only locally in a subsidiary, or whether HQ establishes a global policy, depends on the strategic importance of the issue to the MNE overall, as defined by the HQ. Best practice integration in policy formulation, from best practices of the subsidiaries giving input to HQ, would be ‘nice to have’ according to HQ; however, such input is either not sought actively by HQ (case M), or it is sought by using a process that the subsidiaries are not at ease with (case E), or by going through the German expatriate CEO (case C), thus bypassing the subsidiary HR. The subsidiaries, on the other hand, do not see the need to have their best practice incorporated in HQ policies and guidelines and consequently do not push HQ towards best practice integration. While the HQ of cases E and C wish for a high degree of standardisation, case M is content with the practices being in line with general principles, as defined by HQ. Best practice sharing is considered a good way to achieve similar standards, and regional best practice sharing is facilitated by HQ. Such best practice sharing is achieved by encouraging and organising regional networking platforms for the HR directors of the subsidiaries in Asia. The actual networking itself takes place among the subsidiaries without involving HQ, that is the HR directors use the formal platform provided by HQ to get to know each other and then continue networking informally with each other. While all interviewed parties have very little actual knowledge of competitors’ HR, the feeling in HQ is that HR is ‘about average’ and the subsidiaries have the impression that German MNEs’ HR is more effective than the HR of Japanese MNEs and less effective than the HR of US MNEs. The main reason given for this impression is the applicability of the policies from HQ, which are regarded as more practice oriented from the US MNEs, as compared to the more strategic policies from German MNEs.

### **HR Policy Decision Making In The MNE**

The literature indicates that companies in the stage of internationalisation of multinational enterprise usually have decisions relevant for a country subsidiary made either in the HQ or in that subsidiary (Adler 2001; Briscoe 1995; Rugman & Hodgetts 2000; Schuler, Budhwar & Florkowski 2002). A structure where decisions are made in various centres of competence across the globe is seen to indicate the next stage of internationalisation (Bartlett & Ghoshal 1998; Evans, Pucik & Barsoux 2002; Schuler, Budhwar & Florkowski 2002), and it could be questioned to what extent many firms worldwide or German firms, have reached this

stage (Rugman & Hodgetts 2000). The findings of this study confirm the literature in as much as in the three MNEs under study, the decisions on HR policies are made in the HQ, and the decisions on translating these policies into processes and practices are made between the HQ and the subsidiaries. In describing three different IHRM orientations in MNEs as exportive, adaptive and integrative (Briscoe 1995; Dowling, Schuler & Welch 1999; Taylor, Beechler & Napier 1996), the literature implies that the entire IHRM approach of a company is either one orientation or another. The findings of this study suggest that IHRM approaches of the same MNE differ according to how important the issue is to the MNE strategically. That is, some HR issues are pushed by HQ in an **exportive** way, while seeking or accepting an **adaptive** approach for other issues. For example, an issue that has gained in strategic importance in recent years in all three MNEs is talent management. Consequently, the HQs are not only drawing up policies, but are pushing talent management processes in the subsidiaries where HQ has not focused on talent management before.

In other words, the findings confirm the theory that companies emphasise an IHRM approach in determining their company's HR strategy for managing the tension between integration or internal consistency and differentiation or external consistency (Dowling, Schuler & Welch 1999). The findings contribute to the existing literature by adding that companies seem to differentiate when they are implementing an IHRM approach by 'strategic importance per issue' and by describing concrete examples.

### **Integration Of Country Expertise Into HQ**

The literature suggests that, despite statements of the MNEs to the contrary, country or subsidiary best practice is usually not integrated in HQ policies (Adler 2001; Briscoe 1995; Kostova 1999). The findings of this study partially confirm such a claim. On the other hand, the studied MNEs have been putting platforms and processes in place over recent years that are specifically designed to encourage and facilitate feedback and integration of best practices. While these platforms and processes are not yet widely used actually to integrate

best practices into HQ policies, it is clear that the integration of country best practices is in a state of flux tending towards more integration. In other words, actions have followed the documented statements of the MNEs to have more integration, with the results not yet visible. One possible explanation is that, even though the companies under study are referred to as MNEs in their totality, the current IHRM approach more closely fits the description of international division, where the international dimension of business is isolated, or replicated in many countries, as opposed to a global company where resources are shared on a global basis to access the best process at the lowest cost (Adler 2001). That is, the observed state of flux tending towards more best practice integration confirms the literature about the internationalisation process as a whole (Adler 2001; Briscoe 1995; Fisher & Haertel 2003; Nankervis, Compton & Baird 2002) and the fact that the internationalisation of IHRM follows that of business rather than leading it (Briscoe 1995; Dowling, Schuler, Welch 1999; Evans, Pucik & Barsoux 2002; Napier & Vu 1998; Roberts, B. 2000). Furthermore, the findings expose a mental dependence of the subsidiaries on HQ (Covey 1990), wishing for more guidance from HQ and at the same time resisting that guidance when it is given too concretely. Drawing an analogy between the development of the internationalisation of the enterprise and the development stages of a human being, the findings suggest a stage of insufficient maturity and experience to handle things independently, coupled with a desire to expand its responsibilities.

### **Networks Among Subsidiaries**

Poedenphant (2002), amongst other writers on knowledge management, states that the exchange of knowledge, such as best practice, needs both a platform, IT or physical, and a willingness and openness on the part of the concerned people to share knowledge (Bartlett & Ghoshal 1998; Roberts, J. 2000; Szulanski 1996). The findings of this study confirm the literature, as prior to organised regional meetings none of the MNEs had any measurable degree of interaction between the subsidiaries, whereas now the HR directors, having come to know each other, interact frequently, even outside the official meetings. That is, the regional meetings, organised by HQ, act as a platform for knowledge sharing. It has been pointed out that HRM studies in the literature remain largely insulated from earlier works on the international management and organisation literature (Clark, Grant & Heijltjes 2000; Evans, Pucik & Barsoux 2002) and the contribution of this study is to establish that knowledge transfer is a prerequisite for a more integrative IHRM approach of an MNE (Kostova 1999; Poedenphant 2002). In other words, knowledge management and transfer of knowledge

between subsidiaries is necessary first, before the IHRM approach of the MNE can be more **integrative**, rather than exportive or adaptive.

### **HR Effectiveness Of Other German And Non-German MNEs**

While the literature on IHRM is often describing an Anglo-Saxon point of view (Clark, Grant & Heijltjes 2000), nationality of the MNE's origin is recognised as an important factor in determining MNEs' IHRM (Briscoe 1995; Chew & Horwitz 2004; Rowley & Benson 2002). This importance is confirmed by the findings, thus disconfirming Kostova (1999) who claims national boundaries to be less relevant than industry. The findings further seem to confirm the literature in that the US approach tends to be more exportive than the European approach (Adler 2001; Briscoe 1995; Brodbeck, Frese & Javidan 2002), though this study is only concerned with German MNEs, as a subset of European MNEs. However, the findings disagree with the existing literature on two points. First, Japanese MNEs are considered by the respondents to be the least effective in their IHRM approach. This finding indirectly disconfirms a proposition which states that transfer success is negatively associated with the cultural distance between the countries of the parent company and the subsidiary (Adler 2001; Hofstede 1983a; Herkenhoff 2000). All cultural models (Herkenhoff 2000; Hofstede 1980; Ronen & Shenkar 1985; Trompenaars 1993) list Japan as culturally closer to Singapore, Thailand and Indonesia than to Germany or the US. All other things being equal, the proposition seems intuitively correct, yet the findings suggest that the degree to which Japanese MNEs are perceived to be exportive, ethnocentric and therefore closed to cultural adaptation, outweigh the significance of cultural distance between HQ and subsidiaries. The findings are indirect, however, because they are based on the perception of the respondents in German firms, rather than on direct study of Japanese firms.

Second, the underlying assumption in the literature, confirmed by the above finding on Japanese MNEs, seems to be that an exportive approach is ethnocentric and undesirable (Adler 2001; Briscoe 1995) while the respondents of this study actually prefer the US approach that tells the subsidiaries clearly what to do, that is, a more exportive approach than the German approach. German MNEs may use a more adaptive or integrative approach than US firms, yet are considered less effective in their IHRM approach. The appeal of the US exportive approach lies in its providing clear guidance, combined with an understanding of, and readiness to adapt to, local conditions when necessary. While the German approach

seems to lack clear guidance on a practical level, the understanding of, and readiness to adapt to, local conditions is seen missing in the Japanese MNEs approach. In other words, a firm, practical yet flexible approach is preferred by the subsidiaries. Another possible explanation for the finding that the US approach is preferred over the German approach is that the German MNEs under study expect a level of sophistication and responsibility of the local HR which is not currently there. It may be easier for the subsidiaries, and more in line with present abilities, to follow practical rules rather than developing these rules from somewhat abstract policies. Another conclusion is that the respondents of German MNEs, more so at the HQ than in the subsidiaries, have not actively gathered specific information about what other competitors or non-German companies are doing in international HR in Singapore, Thailand or Indonesia. This is in contrast to the basic rule for strategic analysis and IHRM, that competitor analysis and benchmarking are essential first steps in strategy formulation (Bartlett & Ghoshal 1998; Porter 1990; Schuler, Dowling & De Cieri 1993).

Overall, the findings on the research question suggest that the German MNEs under study apply an exportive approach on a strategic level and an adaptive approach when translating HR policies into practices. The findings confirm the view that the IHRM system ‘establishes itself’ in the wake of business expansion, rather than being actively chosen or designed by the MNE (Napier & Vu 1998; Roberts, B. 2000). The realisation is only gradually dawning in these German MNEs that a more integrative approach is desired by HQ, and so the necessary infrastructure, such as regional meetings or IT platforms, is put in place to achieve more integration, however without taking competitors’ approaches into consideration.

### **Limitations Of The Study**

**Generalisability.** By researching only German MNEs it is difficult to generalise the findings to MNEs with headquarters in different countries. It is partially this lack of generalisability of other research studying international transfer of HR policies and practices from an Anglo-Saxon perspective that led to this study (Adler 2001; Briscoe 1995).

**Deductibility.** The complexity of the issues and the absence of clearly defined independent and dependent variables and measures do not allow theory building from deduction. This study uses an inductive approach to describe and to establish theory (Perry 1998), and does not seek or claim deductibility.

**Controllability.** The HR function is embedded in the business environment and as such, is subject to influences from the market or political situation that cannot be controlled

for. Care is taken in the selection of the MNEs under study that they have a stable presence in the respective countries. To minimise the influence of macroeconomic differences between the MNEs, all the interviews in one country are conducted in the same timeframe. This coincides with logistical ease as well.

**Repeatability.** Internationalisation of HR is an ongoing process. It is not possible to turn the clock back and ‘repeat’ the transfer of HR policies and practices under the same circumstances as would occur in a controlled experiment. Among other things it is this lack of repeatability that justifies and necessitates a case study over an experiment.

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