



# Organizational Change and Human Resource Management

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Human Resources in Multinationals

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# 1. Introduction

In the last few decades, research has shown that the number of companies operating at an international level has grown exponentially. Therefore, there has been an increase in the number of global transactions and foreign trade. Companies that are internationalized have general goals. These companies are aimed at increasing their sales, acquiring new resources, and minimizing risks against their potential competitors. The increasing activity of multinationals in foreign markets has significantly influenced the process of globalization. The important amount of global production of these enterprises makes them have greater power in the development of the economy.

In this project I would describe the main subject of this paper, which is on the one hand, a focus on organizational change, and the other hand, a focus on human resource management. I would try to define the two concepts and relate them to the more specific issue which I have decided to develop. It refers to the management of human resources in multinational enterprises. In addition, I would discuss the current importance that human resources have in almost every company, because it is tightly linked to a growing awareness on the part of managers who care about the importance of good practices in human resource management. Related to the above mentioned, I would also provide a real case of a company to comment on the competitive advantages that human resources can bring to the organization, as long as they are managed properly.

On the issue of human resources in multinationals, this work intends to explore and analyze the types of internationalization strategies that exist, and the decisions which should be taken by an organization when it comes to become internationalized. These decisions refer to either exporting their goods or services or adapting the work system to the peculiarities of the context where the new subsidiary company is to be established. I would also discuss the impact that some factors such as the target culture, the country of origin, the strategies, the legal requirements or the costs have on the practices of human resources in multinationals. Moreover, I would also like to consider the advantages and disadvantages of each of the internationalization strategies and the support they have nowadays.

To finish with, I would analyze the case of multinational corporations in Spain and I would try to conclude in a particular case study, which is the kind of international

management strategy that has more support in the Spanish case. Thus, I would be able to compare the conclusions drawn above overall with the Spanish case.

In what follows, I consider important to offer a brief theoretical introduction on the main premises of my work. I would also introduce the key elements which would be analyzed and developed in further detail in different parts of this project.

## **2. Justification of the choice of the topic**

As stated above, 'organizational change' and 'human resource management' are the initial concepts which will be developed in this work. From these two general premises, various concepts related to both of them will be introduced. It will allow me to focus on concrete aspects of these two concepts, and thus, conduct a more specific study. I will begin by defining the two terms named above separately.

As far as the first concept is concerned, '**organizational change**' can be defined as a difference in form, quality or state of an organization over time. Organizational change implies the need for a change. It is commonly based on the view that the organization would experience an improvement in any of the areas or departments within the company (Poole and Van de Ven, 1995).

As to the second of the two initial concepts regarded, '**human resource management**' can be understood as the method that includes fair policies and practices focused on attracting, promoting, motivating, developing and keeping employees in a company. To develop these practices and policies, managers must carry out several actions and make important decisions. They look for constant working improvement taking into account the organization strategies and the interaction of the company with the environment (Chiavenato, 1993).

Once the above concepts have been defined, it is important to deal with an element that relates both of them and brings into discussion a new one. Furthermore, it has become a very important element in the field of organizational change and human resource management. That is, the **development of human resources**. I think it is a key issue, since it consists in the use of human resource practices to bring about organizational changes in the behavior of people or in the organization in general.

Further to this discussion on the development of human resources, I would like to provide a number of different definitions that have been given over the past decades

and which are listed below, and analyze the main similarities and differences between them.

The first of these definitions I am quoting is Nadler's 1970s. Nadler defines the development of human resources as "a series of organized activities conducted within a specified time and designed to produce behavioral change of organizational members."

The second of the definitions that I would like to note in order to observe the evolution of the meaning of this concept is also from Nadler, but it is subsequent to the previous one. In this case the definition is from 1989. On this occasion Nadler defines human resources development as "organized learning experiences provided for employees within a specific period of time to bring about the possibility of performance improvement and/or personal growth".

The last definition that I would refer to is as follows: "Human Resources Development is the term used to describe an integrated and holistic approach to changing work related behavior, using a range of learning techniques and strategies", (Meggison et al., 1993).

Almost no differences can be perceived between the first and the second definitions, as both of them involve a set of activities or experiences that allow employees to develop a change in their behavior. The main distinction that we can identify is the fact that in the most recent definition, the change in employees' behavior is focused on improving their performance and their personal and professional growth, which in turn, is an unidentified element in the first of the definitions.

In the first two definitions, unlike in the last one, the organized series of activities and procedures are specified for a particular point in time. In the third definition, 'human resources development' is defined as an approach to learning which aims to change workers behaviour only at their workplace and not on a personal level, as referred to in the second of Nadler's definitions.

In addition, the last of the definitions refers to the elements that are necessary in order to make changes in workers behaviour, "using a series of techniques and learning strategies".

The evolution experienced by the definition of 'human resources development' can be mainly observed in the last of the three definitions. This is a much more specific

definition and provides elements that allow us to know how to change the behavior of the employees.

After analysing the meaning of 'human resource development', which is a key issue in this work, I have decided to concentrate on a more concrete aspect, a more practical one, since the topic is extremely broad. My initial idea was to focus the rest of the work on HRD (Human Resource Development) in multinationals and their subsidiaries, since it is an item that includes the two elements of the main theme of the work. However, in the process of revising the literature, I found information that I considered to be interesting about the human resource management in multinational companies. Often unconsciously, I realized that I was altering the course of my project towards this topic. After discussing this idea with my tutor, I decided to focus on the management and administration of human resources in multinational companies, both on parent companies, and on their subsidiaries that have been internationalized in different countries.

### **3. Objectives of the study**

The present study is aimed at finding if there are better ways to act in terms of human resource practices whenever a company decides to become internationalized. With this purpose in mind, I would try to examine the literature, and analyze some previous studies which have key premises to being able to draw some conclusions. In other words, this work attempts to go through the literature which can allow me to conclude on what is the most appropriate internationalization strategy in human resources. On the contrary, if it is not possible to conclude on one single strategy, I would like to find out whether or not a strategy has more followers, or has better outcomes than the others. Therefore, in correlation with the above mentioned, each of the strategies will be firstly analyzed separately, and then I would also include some premises on the support each one has in the field of human resource management.

With regard to the specific objectives, this project seeks on the one side, to determine the main elements or variables that will influence on decision making as far as the type of internationalization strategy in human resources is concerned. As a consequence, the kind of strategy will also have an impact on the success or failure of the multinational company. That is, simultaneously, I would like to understand and analyze the advantages and disadvantages of each of the internationalization strategies in HRM.

On the other side, the second specific objective consists in analyzing the types of internationalization strategies in human resources in Spain. I refer not only to multinational companies of Spanish origin but also to foreign companies that develop their activity in Spain. My purpose here is to try to draw a conclusion on what type of strategy is the most successful or what types of strategies are being developed by the greater part of the companies.

#### **4. Procedure**

Regarding the procedure followed to obtain the necessary information for the development of this project, as a first resort, I gathered information from the textbooks, handbooks, and class notes used during the degree. My main concern, especially at the beginning of my research process, was finding a more specific topic within the broad subject of '**organizational change and human resource management**'. Once the subject of my work had been narrowed to the topic of human resources in multinationals, I searched for information on databases recommended by my supervisor. In particular, "Google", and more specifically "Google academic", and "Business Source Premier", which is a database provided for students by the *Universitat Jaume I*. I was wondering if I could find some articles and findings of authors who are specialized in the same subject. Besides these resources, the UJI library provides students with a search engine by which scientific research articles can be found. This tool has been very useful for the preparation of my work. Once I had enough information, I started to summarize the main points and write my project.

#### **5. Theoretical framework**

To begin with, I consider it is important to define the concept of '**multinational**'. A multinational can be considered as a company that not only performs its activities in the country of origin but also in other countries where it is established. Multinationals are mainly characterized by acting globally. Their main objective is to obtain the greatest possible benefits. Owing to this fact, the owners of multinationals need to take different actions such as buying materials in cheaper markets, installing factories in those places that seem most advantageous, both economically and legislatively, and marketing and commercializing their products all over the world.

As a remark, it is important to note that in this project the terms 'multinational', 'multinational company' and 'multinational enterprise' are used interchangeably. They have been considered as synonyms. Further to this theme, it is also important not to confuse 'multinational company' and 'transnational company'. **Transnational companies** also operate in different countries, but the difference is that Headquarters and managers, as well as the strategy and the administration are generally settled in the country of origin.

Also of considerable relevance when approaching the issue of multinational companies is the difference between the terms 'parent company' and 'subsidiary company'. A **subsidiary company** is a firm that is controlled by another firm, which is the parent company. The **parent company** may own all the elements that are considered to be the heritage of the subsidiary company or only a small part of it. It is important to stress that although the parent company controls the subsidiary company, the subsidiary company is an independent company in terms of having a board of directors. The amount of freedom that subsidiary companies have when it comes to taking different actions varies depending on each parent company. For the most part subsidiary companies may have independent projects providing that they do not contradict the objectives or the principles of the company.

Another interesting fact to point out is the role that subsidiary companies have in multinationals. There are many different classifications about the role of subsidiaries, but all of them come from the same initial source. Perlmutter (1969), created a classification divided into three different types of subsidiaries. They are 'ethnocentric', 'polycentric', and 'geocentric'. **Ethnocentric** subsidiaries are companies that exercise constant control over the strategy and operations of their subsidiaries. **Polycentric**, the subsidiaries have a high degree of autonomy with respect to the parent company, and their strategies and practices are adapted to the environment and culture of the country of destination. Finally, **geocentric**, the parent company leads all the subsidiaries as a single organization.

Once the key terms and the theoretical concepts of this work have been developed, in the following section my discussion will draw into focus the current importance of human resources in enterprises and the competitive advantage that may involve.



## **6. Human resources as a competitive advantage and the importance of good practices in human resource management: the Google case.**

It is relevant to highlight the growing importance that the development of good practices in human resources in enterprises have nowadays. The literature supports the fact that the development of good practices in human resources along with a good management system of human resource practices can have a great influence on the success of any companies.

The new business and socio-economic context that has been established in our society during the last decades has meant the emergence of a new organizational model which is by far more dynamic and flexible. Strikingly, in this new model, the participation and contribution of teamwork in different tasks has become an important feature.

Presently, we are in what is well-known as the 'knowledge society'. In today's knowledge-based society, companies are increasingly aware of the importance of having a highly qualified staff. As a matter of fact, the direction of human resources becomes an indispensable element within a company. Some aspects such as innovation, creativity, and continuous training are regarded as key issues for companies.

In the recent years, human resources have gained importance as a result of changes produced in the business environment as well as of an increased competition among companies due to the internationalization strategy. Companies must differentiate themselves amongst their competitors and obtain an advantage in some aspects of their organization. It is often argued that some studies demonstrate that a successful human resource management has a positive impact on the economic outcomes of the organization. Therefore, it can be stated that good management of human resources can become a competitive advantage that would help an organization to differentiate itself from the other rival companies.

Having said that, I find it interesting to introduce the *Theory based on the resources and capabilities of the company* (Barney, 1991; Grant, 1991; Penrose, 1959; Peteraf, 1993, Wernerfelt, 1984). This theory helps to explain the sustained competitive advantage and growth on the basis that firms are heterogeneous in terms of their resources and capabilities. Moreover, these resources and capabilities are hardly ever transferable among companies. Barney (1991) stresses that the competitive advantage

may be developed from exploiting opportunities and avoiding possible threats that companies identify in their immediate environment. On the other hand, Grant (1991) points out that resources and capabilities are important elements for obtaining a competitive advantage and give the organization a sense of identity. For a resource of capability to be a source of competitive advantage, according to this theory, it must meet certain requirements, for example, it needs to be valuable, limited, imperfectly imitable or non-replaceable. In this sense, experts in the field agree that there is a consensus that human resources in the company must fulfill these requirements (side and Wilson, 1994; Wright, McMahan and McWilliams, 1994; Kamoche, 1996). Therefore, and as it has previously been featured, human resource strategies can be sustainable sources of competitive advantage, especially in the long-term.

Furthermore, it could be said that thanks to several studies which have been conducted, more and more companies are aware of the benefits for their business of managing well their human resources. Employers need to understand that employees are like a generator of value for the company, and not as a hindrance or a load that should only perform work. Currently the human talent management has become an essential element in any organization with some prestige. There are also the so-called models of excellence, which are usually found in the well-known list 'Great place to work'. These prestigious organizations have become the companies that receive the greatest number of job applications.

Regarding human resources in a company, the literature review has allowed me to draw some conclusions which are explained in what follows. A company can have all the possible capital, it can rely on the best business idea or the best initiative, but if it does not have a team of quality that will help to develop the business, how can it be successful?

Human resource management starts when hiring of a new employee for the company. This is the time when the level of competence, and the talents and skills required to perform a job successfully are stated. There are different ways of carrying out the selection of personnel. There are companies that opt for choosing students who are about to finish college. On the contrary, some others wait for candidates to come to the company and apply for a job using the typical and best-known modes of recruitment such as the interview or the curriculum vitae.

In addition, another extremely important element is the training of the staff. It is when the company is trying to create the 'human capital' for the company. As many authors have observed over the years, in the same way that huge amounts of money are

invested in improving the performance or doing strategic redesigns, it is also important that companies invest time and money and make the necessary efforts to provide employees with basic training so that they can improve their skills. Rewarding employees in different ways is also extremely important. The concept of '**Human capital**' can be understood as all the human resources owned by a company with high levels of competence, abilities, skills and knowledge that are very effective when it comes to developing activities that are related to a particular job or workplace and produce economic value for the company.

Considering the effort involved by a company to create the human capital, the company would intend for the necessary means so as to train and keep the human capital of the company. In other words, it would secure that employees who give a competitive advantage are kept in the company. The company will find it much easier to retain an employee who has already acquired the needed skills than to hire another employee and instruct him/her on how to develop a particular job.

The element that we can consider that follows the training stage, although this must be ongoing over time and throughout the stay of the worker in the company, is the monitoring and evaluation phase, which sets objectives that workers must accomplish thanks to their competencies, skills and abilities acquired over their career.

The work environment that prevails in the organization and the motivational elements that the organization will implement to get employees motivated to the workplace become important elements. It is often claimed that motivation is the factor that accounts for differential engagement and success. Highly motivated employees are more likely to perform their job better than those who lack motivation. There are two main types of motivation. Motivation can be intrinsic and extrinsic. The former is the personal satisfaction and psychic reward. It is usually guided by an interest in the task itself and it is related to long-term success. The latter is triggered by some sort of external stimuli like being offered a reward. It is often related to short-term success. These elements among many others will contribute to the workers satisfaction at their workplace.

Previously, those well-known as 'models of excellence' have been mentioned. Companies which are considered to be "excellent" in the field of human resources, attach great importance to their employees and their well-being both at the workplace and outside it. Then, I would like to refer to an organization which is often considered of excellence and it is always alluded to in terms of good management in human

resources. I refer to Google, which is probably the most famous company as regards of employee management.

### **The Google case**



Google is no longer just a search engine, the company “Google” has become a great business model to follow. According to many studies, the organization has the search engine with the best reputation in the world. In addition, the ranking "*Brands Top 100*" positioned the brand of the company among the most valued brands in the world. Also, a survey conducted by *Top 100 Ideal Employer Student Survey*, that thousands of students answered, positioned Google as a favourite company to work for students. The value attributed to the company is due, among other elements, to the creativity that it shows day after day to manage their human capital.

The "googlers", which is the term used to refer to all the Google workers, are very well-treated by the organization. This company has adopted what is known as a paternalistic policy with the only purpose that they feel satisfied and motivated to develop their work successfully.

The company is designed in a very original and colorful way to foster creative-thinking and to motivate employees. It has recreation rooms available for workers as well as a café offering free refreshment. This company intends to create a pleasant environment for working; to meet the workers needs; to facilitate a work-life balance; and consequently, to increase its profits. That is, all these means are used to get employees feel comfortable at their workplace. These are only a few examples because the list of activities and services developed by Google to satisfy their employees is infinite.



Furthermore, workers are free to choose the projects they want work with. It is a distinctive feature that encourages intrinsic motivation since a worker will be much more engaged in the task to be accomplished if he/she feels comfortable with it. What is more, if an employee can't find a suitable project for him/her, he/she can suggest an alternative project or task to develop. In other words, there is a perfect interaction between all the members of the company. All the opinions are equally valid, and they are taken into account. It provides employees with a sense of belonging. That is, they feel they are an important part of the company and their ideas are appreciated.

The Google executive directors consider that the most fundamental resource in a company is the human capital. For this reason the company cares so much for their workers. Since Google is one of the companies with a higher employee retention rate, it can be fair to assume that their procedures and techniques are successful. It seems obvious to believe that if this type of measures were not profitable for the organization, Google would not spend large amounts of budget on them. Bearing that in mind, Google would not provide these services, if they were not efficient in keeping their employees happy and satisfied. As a primary goal, the objective of any organization is to obtain benefits.



## **7. The strategies of international Human Resource Management.**

As already observed, when a company decides to internationalize and grow into a multinational company, it must take a series of major decisions that will influence on the functioning and development of the company in the long-term. These decisions include many different aspects such as the strategy to take or the development of practices in human resources. The way of managing human resources in multinational enterprises would play a decisive role in the success of these organizations.

Authors such as Evans and Lorange (1990), Adler and Ghadar (1990), Milliman *et. to the.*(1991), Taylor *et. to the.* (1996), Bird *et. to the.*(1998), among others, have treated the issue of the design of human resources in subsidiaries. Regarding the theoretical framework, the functions, the purpose and the content, most of these authors have come to the same conclusion. The similar conclusions these authors have reached are stated below.

In regard to the theoretical framework, these authors consider that multinationals must ensure, when designing the practices of human resources of their subsidiaries, that there is a certain degree of integration and coordination between the various units of the different countries that make up the multinational. It is necessary to take into account the requirements suggested by each individual unit in the local environment of its country.

On the other hand, these authors agree that human resource practices are an essential tool for companies to meet their strategic and previously marked objectives. Therefore, the decision of the type of practices to carry out when it comes to internationalize a company becomes a key issue for the proper performance and development of the organization.

It is important to highlight that these authors reject the idea of the existence of a 'universalist approach', according to which there is a set of "best practices" to guide employees that would produce good results in all countries, sectors, and types of organizations. On the other hand, this approach advocates the existence of a 'contingent approach', which argues that there is no such thing as an optimal way to organize but instead, there are multiple ways which will vary depending on the context in which the organization is found.

An element of considerable significance in the literature of the design and choice of human resource practices in the subsidiaries of multinationals has to do with deciding whether or not to use the same practices that the parent company uses. If the same practices are used, they should be based on the company's cultural background. On the other hand, if new practices are used, they should be slightly adapted to the target culture. That is, they should bear in mind the new country where the company is established. There is also another option, which is the most radical. It consists in a complete change of the human resources practices, adapting them to the new country where the subsidiary is going to be established. These practices and in general all the decisions that the company will take to become internationalized will be culturally influenced. It could be comparable to a process of acculturation where the company modifies its practices borrowing traits of the target culture.

From this, according to Taylor et. al (1996) there three different approaches when dealing with the decisions that a company needs to take when it is planning to internationalize. A brief explanation of each type is described as follows.

The first approach is the **exportive strategy**. According to this strategy, the multinational tries to follow the original human resource system of the parent company. It transfers the same model to all the subsidiary companies. This type of strategy has a drawback because subsidiary companies can reject some human resource practices or strategies. As mentioned by Bonache Pérez (1996, 2000), this strategy assumes the human resources of the parent system provide a competitive advantage and it is, therefore, universally applicable.

On the other hand there is the **adaptive strategy**, which claims to adapt the subsidiary company to the local situation of the target country. This fact leads to the existence of a large number of differences among all the subsidiaries in terms of human resource management because the influence of the central company is very limited. The reason for this way of acting is that the company does not regard its human resources as a key competence system (Bonache Pérez, 1996, 2000).

The last of the approach is the **integrative strategy**. It is oriented to use what is called as "human resources best practices" and it creates a global human resources system. Its main objective is achieving a certain level of integration and at the same time allowing certain local differentiation (Perlmutter, 1969).

Table 1:

**Strategies of international human resource management.**

|                             | Exportive   | Adaptive        | Hybrid                         |
|-----------------------------|---|-----------------|--------------------------------|
| Transfer...                 | Philosophy, policies and practices of the Central | Local companies | Dual                           |
| Attribution of problem...   | External  | Internal        | Internal / external            |
| Diffusion of innovations... | Unidirectional<br>Moderate diffusion              | No broadcast    | High diffusion<br>Multilateral |

Source: Adapted from BIRD et al. (1996)

## **8. Advantages and disadvantages of the internationalization strategies in Human Resources**

As may be assumed from the stated above, it seems reasonable to contemplate other possible human resource strategies which could be more convenient regarding internationalization. They will be supported by research. That is, real cases whose multinational corporations have been internationalized.

To start with this analysis, I would like to analyze the main advantage and the main disadvantage that has each of the strategies previously explained has. On the one hand, regarding the adaptive strategy, it can be highlighted that it allows the subsidiary of the multinational company to benefit from the resources of the country of destination. In many cases it can become a competitive advantage for the organization because it can get certain resources more easily. This strategy can also be convenient for workers in the country of destination, since it is more likely that they feel more comfortable in a workplace organized under the management of human resources adapted to the target culture. However, a negative aspect of this strategy would be the fact that the subsidiary is influenced by the local way of living, and other cultural aspects which could give an erroneous idea, or a false image of the company. That is why companies with a defined corporate image are reluctant to follow this strategy. They cannot risk showing a different image in each country where the subsidiary is established. Besides



this fact, it is more difficult for HR managers to coordinate the parent company and the subsidiaries. It seems easier to be organized when the practices and the human resource management are standardized and integrated into both, the parent company and its subsidiaries.

Regarding the exportive approach, it will only be carried through when the management of the company understands that it contributes to a sustainable development, and therefore to a competitive advantage. In this strategy it is viewed favourably the fact that there is greater coordination between the departments of human resources of parent companies. Moreover, this coordination encourages cooperation between all the departments and it results in positive practices which can be easily taken to the rest of subsidiaries of the corporation. In addition, the connection also brings about a reduction in costs. In spite of it, it is important to bear in mind that human resource practices which are beneficial for the parent company may not be equally efficient in the countries where the subsidiaries are implemented. While on the contrary, if the competitive advantage provided by the management of human resources is exported and remains a competitive advantage in the subsidiary it would become a positive aspect of this strategy. A negative aspect is that this strategy can have a negative effect on the performance of local workers at the subsidiary. Employees may lack motivation if human resource practices are not adapted to the local way of living.

In regard to the integrative strategy, an advantage is that a good implementation of this strategy, which would combine the best elements of the exporting strategy and the adaptive one, can result in the perfect human resource management for the subsidiary. Simultaneously, a bad combination can be disastrous for the management of human resources of the organization, since the combination of the best elements of the previously named strategies may be incompatible between them.

On balance, it can be stated that the way to manage human resources in multinational companies influences the success of organizations (Quintanilla, 2002). The conclusion which I have reached after analyzing the literature is that there is no consensus among authors on how to act when it comes to internationalize a company. In other words, it does not exist a widespread acceptance on the fact that there is strategy which is better than another in terms of the outcomes.

On the one hand, some authors such as Evans and Lorange (1989) support the idea that multinationals should be based on two logics: the business logic of the market and the socio-cultural logic of the different territories. To put it differently, according to these

authors, multinationals have to adapt their human resource policies to the markets and environments in which the activities take place. Therefore, they advocate for an adaptive approach to human resources, although it is true that they seem to ignore the pressure that the organization would face from the parent company towards the standardization, an element that may be decisive when it comes to making a decision on the internationalization strategy.

Conversely, authors like Florida and Kenny (1991) rely on the facility that some practices have for being transferred to different cultures. The authors that have done research analyzing the possibilities that exist to transfer human resource practices from the country of origin to the country of destination would be leaning more towards the defense of the exportive approach, promoting the standardization, integration, and coordination of human resource practices. This strategy is probably the least supported by the literature, but it shows great support on the part of the companies and their directors/managers. This implies that it is a strategy which is usually taken into account.

As a last remark, I would like to stress the research projects conducted by authors such as Lertxundi, in 2011. Some studies that concluded that there is coexistence between different strategies of internationalization. That is to say, the results allow to conclude that it is not necessary to treat the internationalization strategies as mutually restrictive alternatives. These authors defend the “hybrid” internationalization strategy that combines the two previous strategies and allows to take the best of both strategies and apply it to the subsidiary.

Broadly speaking, when a company makes the decision of becoming internationalized, it follows that the parent company must take into account many elements that can have an impact on the choice of strategic international human resources. During the review of the literature, I tried to extract the most important elements which in my view have a greater influence in decision-making.

The first element which I consider as of the most important, and so it is for many authors, refers to the way in which it is achieved the internationalization of the subsidiary. That is, if the company decides to internationalize through the purchase of other companies, or if it decides to internationalize through a subsidiary of new creation. In the first case, the company would have a way of acting prior to the acquisition in all areas of the organization, including human resource management, which as a general norm will resemble that of the local environment. In this case, the company must be aware of the fact that it will be very difficult to change the strategies,

since it is very difficult to change customs and the way of performing of a whole enterprise.

The second case is that of the new subsidiary company. In this case, the company may decide the type of strategy of human resource management, since there are no previous elements that mark the way of acting in the subsidiary. In this case there must be other elements that influence the type of strategy to follow.

The next element that I think will have an influence on making this decision is the type of culture that exists in the parent organization. Organizational culture can be understood as the organizational values (beliefs, ideas, standards, or rules) on the type of objectives which are marked by the organization and the way in which companies they should be achieved.

Therefore, the culture will influence all aspects of the organization, specially the aspect that concerns us, which is the taking of decisions on the strategies of human resources in a subsidiary.

There are some companies that have a very strong organizational culture. In these cases the majority of the members of the organization share the same view for business. They tend to be quite closed cultures. In cases in which the parent company has this kind of culture, there are more chances it this way of behaving is transmitted to the subsidiaries, as these strong cultures often lead to the commitment and motivation of the employee. Consequently, this fact will involve the decision of carrying out an exportive strategy in human resource management.

On the other hand, if the parent company has a weak and open/open-minded organizational culture, the element of the culture of the organization will not be considered as a decisive factor in terms of making the decision and other variables will have greater influence.

An element of considerable importance, which is linked to the previous element of the culture, is the influence of the country of origin. I say that it is linked because we can assume that the culture of the organization will be built and influenced by the country of origin. The particularities of the country in which the parent company is located have become a key element in the corporate identity of the multinational. Although we must highlight that the degree of influence of the country of origin in the organizations varies greatly from some countries to others and also between different companies.

Another element that will influence in deciding a strategy refers to the fact that the company is obtaining good results with the practices of human resources carried out, or even if its human resources practices have become a competitive advantage for its competitors. In this case, the organization will be tempted to opt for the exportive strategy, since good outcomes, or even, a competitive advantage, can be important reasons to develop the human resource policies and practices that are working well in its country of origin. As can be expected, they could also bring good results or a competitive advantage to its subsidiaries.

The next element that I consider important and that can exercise control, is the geographical distance between the home country and the destination country where the subsidiary is intended to be established. It seems plausible to assume that geographic proximity equates to cultural closeness. That is, countries that are closer to each other also tend to have greater similarities in terms of cultural values and norms. Therefore, the greater the proximity between the two countries, the simpler will be to establish human resource policies that are being used in the company's headquarter. Conversely, if cultural differences between the country of origin and the country of destination are more noticeable, it will be more expensive to transfer the central human resources policies to the subsidiary and therefore, it will be easier to resort to other internalization strategies.

The cost is one of those variables which could not go unnoticed because it accounts for the majority of decisions that an organization must make. It is an element the cost is a variable that will undoubtedly influence on deciding which internationalization strategy the company needs to carry out. That is, a strategy which involves less cost to the organization, and has the greater chances of success. When we refer to costs, it is important to bear in mind that there are different types of costs. We can find the production costs (personnel costs), the transaction costs (those related to internal and external transactions), the system costs and the opportunity costs.

A variable that certainly influences decision-making, but is beyond the reach of the company, is the legal distance that can exist between the country of origin and the country of destination. The legislation of the country of destination can prevent certain human resource practices from taking place/being carried out. This fact would avoid the realization of the exportive strategy in its entirety. It follows that the greater the similarity between the source and the target countries in terms of the legal environment, the more relevant would be the similarity between the policies of human resources in the parent company and in the subsidiary company.

Finally, I would like to mention another element that I consider important, and which has an influence on deciding what strategies of international direction of human resources to take. I allude to the strategic role that the parent company will give to the subsidiary company. In this sense, it will also influence the dependence that the subsidiary has of the central company. The greater reliance on resources has the subsidiary company, the more control may exercise the parent company on the subsidiary. It will probably be translated in more standardized human resource practices between the parent company and the subsidiary. On the other hand, if the subsidiary is more independent from the matrix parent company, and it depends largely on the local resources, the central will allow the subsidiary greater autonomy and, therefore, a major adjustment in its human resource practices.

There is no general agreement about the existence of an internationalization strategy which is more efficient than another. In other words, the experts on this subject have different views on human resources and on what is the right strategy when it comes to internationalize. As follows, each of the internationalization strategies is analyzed and some reasons that support them are expounded.

The adaptive strategy is undoubtedly the most supported internalization strategy in the literature because many authors recommend it. Among these authors we find Gomez-Mejia, Balkin and Cardi (2007); or Newman and Nollen (1996). They stand for the adaptive strategy, and most of them do not even conceive the possibility of thinking about a subsidiary that is completely detached from the cultural features of the country where it intends to develop its activity. Moreover, these authors claim that for many years in the literature there has been revealed that, often in an unconscious way, the companies tend to adapt to the culture and the environment of the country of destination.

These authors, talk tirelessly about the cultural differences between the company and the environment, and the need to create multinational companies adapted to the local economy and culture of the country of destination. They argue for the need of adaptation that is created between the company and the environment, and the studies carried out for years reveal that the companies that have accepted the adaptive internationalization strategy have achieved greater success than those companies that have adopted the exporting strategy. Both strategies would be totally opposed.

On the other hand, we can say that on the opposite side we find the exportive internationalization strategy. This is probably, the strategy that has received less support in the literature during the past years. It is very difficult to find authors who

defend this strategy or the export of the practices of human resources of the parent company to subsidiaries. But it is true that although this strategy does not have the support of literature, it has support that is considered very important, and that it turns out to be influential when making the decision on the strategy of internationalization that carry out, and this support comes on the part of businesses, entrepreneurs and executives.

Studies carried out to entrepreneurs and managers of multinationals related to the human resources department/department of human resources are concerned about the need to integrate and standardize the practices of human resources to all subsidiaries that make up/form the organization, providing the multinational with certain global consistency. These managers and entrepreneurs manifest that the existence of unique principles is necessary to attract, develop and retain talent. It also helps to increase the sense of belonging of the workers and the creation of a stronger organizational culture. For these reasons, studies demonstrate the orientation that many companies present in adopting policies of human resources that are integrated and aligned with the rest of the companies of the multinational.

On the whole, the hybrid strategy of internationalization of human resources, which is in fact, together with the adaptive strategy the two most supported by the studies in the field. Authors such as Quintanilla (2002) defend the hybrid nature of the policies and practices of human resources in the subsidiary companies. This means that human resources in this type of companies contain elements of both, the parent company and the country of destination.

These authors consider that the best way to internationalize is taking the best elements of each of the above strategies. That is, combining the best elements of the environment and the culture of the country of destination, and the key features of the parent company. There are cases in which the practices and policies of human resources are adapted to a great extent to local culture and economy, and other cases in which human resource practices are completely influenced by the parent company and the country of origin.

Quintanilla (2002), thanks to his analysis and studies on subsidiaries, comes to the conclusion that when the subsidiary is allowed to design and establish its own practices of human resources, that is, when it is given greater autonomy, and no particular policies and practices are imposed, this subsidiary will be able to adopt and combine different characteristics of the country in which it operates, its country of origin, as well as the industry. The result is a group *sui generis* of policies and practices of human

resources. These policies differ both from the environment of the country in which it operates and from the country of origin. In this case we face what has been previously named as a hybrid strategy of internalization.

As already stated in repeated occasions, the perfect and most efficient strategy of internationalization of human resources does not exist. However, research on the subject seems to show that there is a dominant strategy among multinationals regarding the human resources in subsidiaries. Some studies reveal the most widely used strategy is the adaptive strategy (Tregaskis, 1998).

Regarding the choice of strategic international HRM it is logical that the adaptive strategy is the most widely used. In many aspects the activities of multinationals are influenced by the culture and institutions of the country of origin. It is also important to stress that the use of strategies is not restrictive because several strategies can be combined. As can be expected, an adaptive strategy has the advantage that the company does not renounce to the standardization and integration of certain practices, and it takes into account the cultural aspects of the parent company, elements that are also defended in the export/exporting strategy. In a way, we would be using the hybrid strategy, since many multinationals opt for combining different practices and characteristics of the local culture of the country of destination with distinctive aspects of the country of origin of the parent company. In short, although there is a major trend towards making adjustments and adapting the organization to the environment, it can be done without refusing certain aspects that stand out from the parent company. To support the fact that an adaptive strategy can be developed without giving up some aspects which would be related to the exportive strategy, some aspects related to the hiring process, the employee training, and the evaluation will be shown, (Bonache and Trullen, 2011).

One example can be found during the hiring process. In the international adaptive strategy is encouraged to hire native applicants. That is, candidates who know the environment and the socio-economic factors of the country of destination. A rigorous selection process can be carried out with the purpose of determining the employees' characteristics and talents required for effective job performance, as well as their ability to empathize with the principles and values of the company. Only in this case there is greater understanding and integration between the company and the country of destination. The cultural differences are also reduced because companies are adapted to the local environment, and employees have greater knowledge of the country of destination.

Regarding the training of the staff, although the internationalization strategy is that of adaptation, it is increasingly usual, in this specific case, to find worldwide standardized programs. Moreover, it is more and more common to implement e-learning.

As for the evaluation of the performance, in the majority of the cases the subsidiaries have a major decision, but the system is standardized because it allows comparing the performance of the managers in the various subsidiaries, and it facilitates the granting of incentives, or the opportunities for promotion.

With respect to compensation, it is one of the most faithful parts to the adaptive strategy of internalization. It seems quite reasonable that wages and rewards are adapted to each country's income level, but still a certain level of internal equity may be kept in the company in regard to remuneration. In other words, the fixed salary must be set taking into account the socioeconomic status and the income of each country, whereas the variable salary/pay/wage may be consistent with the performance evaluation policy of the organization worldwide.

All things considered, studies prove that the majority of the companies and their managers show a strong inclination towards the standardization and the integration of human resource practices. It follows that most companies opt for the exportive strategy. However, at the same time, they are aware of the importance that the literature gives to the adaptation of strategies and practices of human resources to the environment and culture of the country of destination. For this reason, in many of the case studies, companies decide to carry out the adaptive internationalization strategy, but they perform their activities that are oriented in some way to the standardization and integration. In many cases, instead of the adaptive strategy, there is a clear tendency towards the hybrid strategy. In other words, in practice a balance between strategies is intended.

## **9. Multinationals in Spain and their human resources**

It is from the moment in which the legal environment in Spain becomes a favourable context for foreign investment, when the foreign capital starts to take part in the main sectors of this country. From the seventies until the 1990s there was a considerable increase, but above all, the entry of Spain into the European Union marked the beginning of a growth in the Spanish market. This fact made it possible to distribute products much easily.



It is true that there are a large number of multinationals in Spain. We can distinguish two main kinds of multinationals. On the one hand, there are multinational companies owned by foreign companies. That is, companies from other countries that have established a subsidiary in Spain and are operating here. And on the other hand, there are multinationals of Spanish ownership. For example, companies whose origin was to be found in Spain but which have internationalized to other countries, thus becoming multinationals.

As it has been concluded in the previous sections of this project, there is no consensus on the internationalization strategies of human resources at a general level. Therefore, I would like to provide new insights into the case of multinationals in Spain, and try to find out which is the most followed internationalization strategy in our country.

After a detailed search, I have concluded that there are no studies or national research developed that conclude in the most widely used strategy. But I have found interesting studies on policies of human resources in multinationals in Spain. It can possibly guide me to reach some conclusions about the type of internationalization strategy and the practices that are more followed in these cases. Then, I would discuss some of those studies that may have key elements, and finally I would try to reach a conclusion about the most often used type of internationalization strategy in multinationals in the national territory.

One of the studies I have decided to analyze, and which I find interesting because it can influence on the type of internationalization strategy is one in which a focus is given on the control exercised by the matrix on the department of human resources in the subsidiaries. It leads to conclude on the degree of autonomy that the subsidiaries have with respect to the matrix. The results offered by this study can be observed in a large number of cases because there is a large control by the matrix on the activities and practices of human resources in its subsidiaries. Multinational corporations can exercise an exhaustive control over the departments of human resources of its subsidiaries in many ways and impose practices that the subsidiary must develop without allowing any influences of the culture and the environment of the local economy and therefore, promoting the standardization and the integration of human resource practices. On the other side, there can be a less exhaustive control if the matrix is only concerned about achieving good results in the subsidiaries no matter the practices of human resources they decide to carry out. That is, as long as they are beneficial for the whole outcomes of the organization. In this study, the degree of control exercised by the matrix on the subsidiary is not specified; the results allow to conclude that exists

some degree of control by the parent company on subsidiary company in most of the companies that were under investigation.

Continuing with the topic of studies, the next issue that I find interesting to note is a point in a study where the subject being studied is the existence of coordination between the departments of human resources in different countries. In the case of multinationals in Spain, the results of the studies show a clear lack of coordination between the human resource departments of the same company in different countries. Individually, this can be understood as a certain degree of independence of the subsidiaries to the parent company. Similarly, in the case of attending a standardization of the practices and policies of human resources it would be evident a high degree of coordination between the departments of the various subsidiaries and the parent company in order to provide companies with detailed information. On the other hand, currently, the existence of new technologies has facilitated the transmission of information to different parts of the world and in different moments. It has also contributed to the reduction of costs, primarily due to no travel or lodging costs. That is, less meetings are required and therefore, there is no need to spend money on business trips. The 52% of the companies surveyed in this study have some kind of human resources-related computer system.

Further to this theme, another element under consideration is associated with the corporate philosophy of and its cultural aspects. Some authors in the literature consider whether the international dimension of human resource management that is being developed in the company is common to all subsidiaries. 40% of the companies surveyed affirm that in their case the principles and philosophy of the company are global and they have an influence on all the operations within the company. On the other hand, 50% of those surveyed deny the existence of a philosophy in the company at a regional or national level. As can be seen, in this case the results are not too conclusive, since the percentages are high in both cases and the differences are minimal.

In the same study, also related to the topic of the influence that the philosophy and the culture of the parent company exercise over the subsidiaries a fairly high percentage of the respondents say that the traditions of the parent company are important and have an influence on setting up policies and practices of human resources. The percentage increases for those companies that claim to have a global culture and philosophy. That is, a set of principles for the entire organization. On the contrary, the percentage

decreases for those companies that delegate this issue to their regional or national subsidiaries.

There is a very revealing study on the case of multinationals in Spain which allows to reach more specific conclusions. This study reveals that those multinationals that followed the exportive strategy of internationalization of human resources did not have much success in its internationalization. In other words, companies developing the policies and practices of the parent company in the subsidiary were not successful compared to companies that used the adaptive approach. The study demonstrates the success that companies that developed an adaptive strategy of internationalization or an approach oriented towards the adaptation of practices and policies to the local environment and culture had (Quintanilla, 2002).

Having analyzed the results obtained in the studies discussed above, I can say that the role and the HR department in multinationals in Spain is quite heterogeneous. There are cases of multinationals in which there is a greater degree of integration and coordination among all the subsidiaries and the parent company, while in other cases the degree of integration and coordination is smaller or even absent. Despite the fact that there is no clear inclination towards any of the internationalization strategies of human resources, it is true that there is a clear tendency by companies in Spain, especially multinationals of Spanish origin, towards the philosophy and the culture of the organization spread to the subsidiaries. This implies that the standardization, the integration and the coordination of the culture may be related to the exportive strategy, although as previously mentioned the internationalization strategies are not mutually exclusive, and there are very few cases in which expatriates are used for the direction of the departments in the subsidiaries.

Moreover, we must not forget the study that reveals that the companies that develop a strategy of internationalization oriented towards adaptation have greater success than the companies that develop an exportive strategy of internationalization of human resources. For this reason in multinational corporations in Spain there is a certain orientation to the adaptive strategy of internationalization, which as explained above can be carried out without giving up certain aspects or practices of the parent company, and always looking for the integration of the local culture and environment and the culture and philosophy of the parent company. On the other hand, a good option is the hybrid strategy, which is defended by authors like Quintanilla (2002). Also, some studies indicate that it accounts for very good results for companies because it combines elements of the adaptive strategy and the export strategy. If it is correctly

performed it will lead to obtain the most beneficial aspects of each of two approaches. To some extent these executives and companies are determined to defend the exportive strategy, since they consider the standardization of the practices and the organizational culture to be essential elements. Furthermore, the subsidiary needs to adapt somehow to the environment and the local culture in order to fully exploit the benefits of the country of destination.

## **10. Conclusion**

Initially, this work had to be focused towards the development of human resources in multinational companies, combining in one the two main elements of this work. But in the end it has shifted to management and direction of human resources in multinational enterprises, and the importance of good management in today's organizations.

This work has begun with the revision of the most important theoretical elements to take into account. The relevance of the good management in all levels in human resources has been emphasized. Also, the possibility that the human capital of the company (the staff), and its good management can become a source of competitiveness for a company compared to the rest of its competitors. At this point, the example of the Google company, as an enterprise with very good reviews in the development of human resources, and whose human capital is considered a source of competitive advantage, has been introduced. This example allows to reinforce the arguments previously given on the benefits that a good human capital and a good management of human resources have for the company.

Then, a review of the three main types of internalization strategies in human resource management has been provided. The three approaches or types of strategies are the exportive approach, the hybrid approach and the adaptive approach. The exportive strategy consists in standardizing and integrating the practices of HR to all the branches of the organization. In other words, using in subsidiaries the same policies that are used in the parent company in terms of human resources. This strategy also relates to the transferring knowledge within the multinational. In regard to the hybrid strategy, it consists in the use of the practices of the matrix but allowing integration with the environment and the culture of the country of destination. And finally the adaptive strategy consists in performing practices and policies of human resources which are tailored to the country of destination. That is, taking into account the environment, the target culture, or the most important customs among other elements, to implement and manage human resources. The main features of each of the strategies has been

exposed, and it has allowed me to draw some conclusions. For example the fact that the exportive strategy tends to be attached to the displacement of the managerial staff to subsidiaries, which is a procedure referred to as expatriation, while on the other hand, in the adaptive strategy, it is usual to hire executives from the country of destination.

It follows that in order to find the optimal internationalization strategy it has been useful to analyze the main advantages and disadvantages of each of the strategies presented. Albeit, no conclusive results can account for whether a strategy is better than another. What I have been able to conclude is that the adaptive and the exportive strategies are not entirely restrictive, since that would mean to oversimplify an issue that is very complex. This fact gives rise to the existence of the hybrid or integrative strategy, which is a combination of both the adaptive strategy and the exportive strategy.

The review of the literature leads to the conclusion that there is no general agreement among the authors, about the best way to act or the best strategy to take when it comes to becoming internationalized. This is mainly because there is a large number of variables that will influence on the decision-making. In this sense, the most significant elements have been identified. I refer to such elements as the way of internationalization; the organizational culture; the country of origin and its location; the principles and roles that human resources have in the parent company; the geographical distance between the country of origin and the country of destination; the costs; or the legislation of the country of destination and the strategic role that will have the subsidiary.

In addition, it has been pointed out that many authors claim that when companies want to internationalize and they need to make some decisions on what human resource practices to take, the management of the multinational and especially those employees responsible for the human resources of the organization should be made aware and evaluate the efficiency of the HR system in the matrix as a source of competitive advantage, as well as the abilities of adaptation and the similarities with the cultural context of the subsidiaries. This will allow managers to anticipate to a greater extent the outcomes they can get with these organizational HR practices. If the evaluation is positive, an exportive strategy could be one of the implemented approaches, whereas if, on the other hand, the evaluation turns out to be unsuccessful, a need for adaptation between practices should be regarded.

Although there is no consensus on the best way to act in human resources when it comes to internationalize, it is true that most authors choose mainly to adjust. That is, the adaptive or the hybrid models. This is due to the good results demonstrated by some studies conducted in companies that develop these strategies. On the other hand, there are few authors who are more inclined towards the exportive strategy, mainly because it defends the corporate culture and regarding employees, it creates a greater sense of belonging to the subsidiaries. This inclination of multinational corporations and their managers towards standardization and centralization of human resources increases in cases in which the parent company develops practices and policies of human resources that represent a competitive advantage for the organization.

Taken together a review of the literature and an analysis on certain studies, my discussion has shown that there is a more frequent used kind of strategy of international human resource management. This strategy is the adaptive strategy because in many cases the activities that the subsidiaries develop in the countries of destination are influenced by the local culture and its institutions. Organizations are in some way "forced" to adapt to the local environment so as to develop their activity more easily. Furthermore, this strategy may be conducted taking into account the organizational culture and without relinquishing certain aspects and elements of the parent company in developing human resources policies and practices. On the other hand, studies show that organizations that have carried out this internationalization strategy have obtained good results and greater business success.

To complete this work, a slightly different perspective has been analyzed. My purpose here has been trying to learn about the most frequently used international strategy in human resource management in the case of multinationals that corporate in Spain. In this particular case, the conclusion which I have reached is that the companies that have developed the adaptive or hybrid strategies have obtained better results than those companies that have carried out the exportive strategy. At the same time, studies show a clear inclination of employers towards the standardization and integration of the practices of human resources to all the companies that make up the multinational, above all we have observed this orientation in multinationals of Spanish origin. In brief, it could be stated that the results are very heterogeneous and it is difficult to reach a conclusion about the type of internationalization strategy of human resources used in the case of multinationals in Spain.

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