INTERNATIONAL COMPETITIVE STRATEGIES AND HUMAN RESOURCES MANAGEMENT: EMERGING ISSUES AND CHALLENGES

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Abstract:
The rapid increase of multinational companies over the last years created the need to understand better the development, diffusion and implementation of international competitive strategies and their effect on human resource management. This study makes an attempt to link international strategic management theory to human resource management examining the alternative competitive strategies for multinational companies, the characteristics of the each strategy, the factors affecting the choice of strategy, the main advantages and disadvantages of the strategies and the evaluation of alternative international strategic options. The second section of the study examines the operation of human resources management in multinational corporations and presents the main functions and activities of the International Human Resources Management, the strategic activities, goals and challenges of International Human Resources Management and the impact of different international competitive strategies on human resources management.

Keywords: human resource management, international competitive strategies, multinational companies

1. Introduction

International strategic management aims to formulate and implement strategies that enable businesses to compete effectively in the international arena (Griffin and Pustay, 2002). Strategic planning or the process of developing an international strategy is usually carried out by senior executives at corporate headquarters and by senior executives of domestic or foreign subsidiaries in order to determine the key long-term goals of a business, to adopt modes of action and to allocate the resources needed to achieve these goals (Shah et al., 2012). Developing international strategies requires understanding and dealing with multiple governments, different economic conditions,

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currencies and accounting systems, multiple political and legal systems as well as cultures and languages. These complexities are at the same time three sources of competitive advantage in international markets. In particular, the competitive advantages that can be gained are global profitability, multinational flexibility, and global learning (Harzing and van Ruysseveldt, 2004; Griffin and Pustay, 2002). Specifically, international businesses can improve their profitability and achieve location efficiency by opting to set up their production units at the lowest cost production sites, but also economies of scale and economies of scope. At the same time, multinational companies are flexible to take advantage of opportunities and manage risks in the global environment. In addition, multinational companies facilitate organizational learning by encouraging and facilitating the transfer and exchange of new knowledge.

A multinational enterprise can exploit differences in its operations from country to country and transfer this knowledge to its business operations in other countries (Griffin and Pustay, 2002). Therefore, international businesses can benefit from global profitability, multinational flexibility and global organizational learning, and take advantage of opportunities that are not available to domestic businesses. To exploit the above competitive advantages, the following four alternative strategic approaches are listed in the international literature (Griffin and Pustay, 2002; Ball et al., 2010; Daniels et al., 2015; Cavusgil et al. 2014):

1. International or home replication strategy: Its main focus is centralization of operations and transfer of innovation and technology from the company’s headquarters to overseas markets.
2. Multi-domestic strategy: Characterized by decentralization of operations as it focuses more on the needs and requirements of the country of the subsidiary, the operation of which can be regarded as a separate and autonomous unit.
3. Global strategy: Characterized by centralization of operations. The world is considered to be a single market and the primary objective of the business is to create standardized goods and services to meet the needs of consumers worldwide.
4. Transnational strategy: Partly centralized, partially decentralized. There is a balance between standardization and responding to the local needs where the subsidiary is located.

2. The Characteristics of the Four Organizational Competitive Strategies for Multinational Enterprises

In the process of joining the international environment, businesses are under pressure to internationalize - integrate their operations or to adapt to local markets. The choice of the most appropriate strategy depends on the degree of pressure the business faces in terms of adapting to local markets and reducing costs through integration (Ball et al., 2010). International integration coordinates the activities of the company in its countries...
of operation with the aim of achieving global efficiency, synergy and interaction and harnessing the benefits of similarities between countries. Response-based management aims to meet specific customer needs in specific markets.

Factors asking pressure for international integration include: (Cavusgil et al., 2014)

- Cost-cutting through economies of scale: Some businesses choose to produce their products in a few select locations where they can benefit from economies of scale. Concentrating production in a few locations makes it easier to control quality and reduce production costs.

- Convergence between consumer needs worldwide: Manufacturing and selling standardized products is more cost-effective than customizing the product or service to each market. Standardization is possible as many consumer needs are similar around the world.

- Provide one-stop-shop to global customers: Services are easier to standardize when businesses integrate production and service delivery.

- Global supply of raw materials, raw materials, components, energy and labor: Businesses are under pressure to procure high quality materials and inputs at low cost. Searching for supplies from large-scale central suppliers helps to achieve economies of scale and better-quality raw materials at reduced costs.

- Control of competitors and responsiveness to global competition: Competition at the global level is tougher than local competition. International businesses are developing strategies to tackle competition on an integrated and global basis.

- Using marketing tools that can reach customers in multiple markets: Businesses can design the promotion mix as well as other promotions that are targeted simultaneously in many countries.

Factors that ask pressure on local response include: (Cavusgil et al., 2014)

- Obtaining natural resources available to the business: Each country has its own resources such as raw materials and skilled workers that can give the business a competitive advantage.

- Response to specific customer needs: Customer needs often vary from country to country. International businesses are tailoring their products and services to meet these needs.

- Exploiting differences in distribution channels: Distribution channels vary from market to market, increasing the need to adapt to local conditions.

- Respond to local competition: Foreign businesses face challenges in markets with numerous local competitors. In order to successfully meet the challenges of local competition they must offer products and services that meet local demand.

- Adapt to cultural differences: The impact of culture and culture is significant in some markets. In these markets, the company adapts its products and marketing appropriately.
Local government requirements and regulations: Many countries impose restrictions on trade to protect local businesses. Multinational companies are setting up production facilities in these countries to overcome such obstacles. The choice of the appropriate strategy depends on the degree of pressure the business faces for international integration or for responding to local market needs. In their efforts to balance the two pressures, multinational corporations usually adopt one of four strategic options:

- When the pressures for international integration are high and pressures for responsiveness to local markets are low then the company chooses the global strategy.
- When the pressures for international integration are high and the pressures for responsiveness to local markets are high then the company chooses the transnational strategy.
- When pressures for international integration are low and pressures for responsiveness to local markets are high, then the company chooses the multidomestic strategy.
- When pressures for international integration are low and pressures for responsiveness to local markets are low, then the company chooses the international strategy.

In the following section we examine the key features of the four alternative strategic options.

2.1 International Strategy

The first strategy listed in the international literature is the strategy of domestic replication or domestic imitation or international strategy. Most tend to use the term international strategy. On the basis of this approach, the company exploits the advantages having developed in its country of origin as main competitive weapons in the foreign markets it enters. The company uses effectively its successes in the domestic market by copying them to foreign markets (Griffin and Pustay, 2002). Businesses applying this strategy centralize product development functions into one market and then transfer innovations to overseas markets (Ball et al., 2010). These innovations include specialization in the production of a particular product, design capabilities, strength and brand recognition in foreign markets. The company designs its products with its customers in mind (Cavusgil et al., 2014). Foreign markets are an opportunity for additional sales by expanding the international product life cycle. This strategy is often adopted by businesses when the pressures for global integration are low and the need for local responsiveness is low. Company executives believe that the company’s path to international success is the same as the one it has successfully written off in the domestic market and find no reason to adjust the core business strategy when entering in new international markets (Griffin and Pustay, 2002). Companies that manufacture and sell merchandise often use this strategy as these products often do not require special adaptations to other markets. This strategy can also succeed when the company
only targets markets that are similar to the domestic market (Cavusgil et al., 2014). Headquarters maintain a high degree of control over product promotion and strategy while the degree of local differentiation of the product tends to be limited. In particular, the foreign units operate under the control and coordination of the parent company while the subsidiaries have limited autonomy to adapt products and processes. Therefore, the central management (parent company) is the decisive force in shaping international strategy (Daniels et al., 2015). Companies following international strategy aim at learning around the world by transferring knowledge and skills to foreign markets. This strategy is well designed to serve the need for learning through the global exchange of innovation. It is noted that for most businesses that have no experience in international markets or have limited goals for internationalization, this strategy is the first to be used more as temporarily than as a long-term strategy (Daniels et al., 2015; Cavusgil et al., 2014).

2.2 Multi-domestic Strategy
The second alternative strategy listed in the literature is the multi-domestic strategy. In the case of a multi-domestic strategy the company is considered to have a set of relatively independent subsidiaries, each one focusing on a local market. In order to achieve different strategic objectives, this strategy attaches primary importance to national differences. Each of the subsidiaries is free to adapt its products, business practices and marketing to better meet the needs of local customers. The multi-domestic approach is used when the need to respond to local conditions is high and the pressures for global integration are low. At the same time, businesses are more interested in meeting the specific needs of their local customers by tailoring their products or services to local markets. (Griffin and Pustay, 2002). Under these circumstances, decision-making tends to be more decentralized, so that the business can adapt its products and services more quickly in order to respond to changes in local competition and demand (Ball et al., 2010). These companies achieve global profitability and increase their revenue by diversifying their products and services to meet different consumer preferences and being in line with government regulations (Shah et al., 2012).

The parent company gives autonomy to subsidiary managers allowing them to operate independently in order to meet the needs of local markets. The products and services are tailored to suit the unique needs of each country. Using this strategy, central management recognizes and exploits the differences between different markets. This allows subsidiaries to vary products and management practices from country to country. Managers of subsidiaries are usually executives from the host country of the subsidiary and tend to operate independently without particular incentives to share knowledge and experience with managers from other countries in which the multinational company operates (Cavusgil et al., 2014; Farndale and Paauwe, 2007). Multi-domestic strategy is considered to be particularly effective when there are clear differences between national markets, the cost of coordination between the parent company and its foreign subsidiaries is high and economies of scale for production,
distribution and marketing are low (Griffin and Pustay, 2002). As subsidiaries usually have production plants in third countries, locally produced products are better adapted to the local market. At the same time, the local subsidiaries are managed by executives from the country where the subsidiary operates, with the result that there is little pressure for staff from the company headquarters. In multi-domestic strategy many responsibilities and activities are assigned to local executives and managers (Cavusgil et al., 2014). Using the multi-domestic strategy, each subsidiary tends to develop a local strategic plan, organizational culture and business processes that may differ substantially from those of the parent. Subsidiaries have no incentive to share knowledge and experience with other multinational subsidiaries. This can lead to reduced economies of scale. Also, limited information sharing reduces the likelihood of developing a knowledge-based competitive advantage. As the multi-domestic strategy responds more to local markets by adapting products, operating costs may increase. (Cavusgil et al., 2014).

2.3 Global Strategy
Global strategy is the third alternative approach, in which businesses perceive the world as a single market and set as their primary goal the creation of products and services that respond to the needs of customers worldwide, regardless of country of origin. This strategy is based on centralization of production to produce standardized products in a very efficient way and helps to achieve the need for effectiveness through global integration (Shah et al., 2012). When a company chooses the global strategy, considers the global market as a single entity and assumes that its customers are the same regardless of nationality. The company achieves economies of scale in production and marketing by centralizing research and development and production in the most efficient factories and creating global advertising and marketing campaigns for the sale of its products. This means that the company coordinates production and marketing globally, centralizing decision-making at the company's headquarters. (Griffin and Pustay, 2002). With a global strategy, the core company has total control of its subsidiaries worldwide and focuses on centralizing and integrating global operations to achieve global integration, efficiency and learning. Global strategy gives opportunity to exploit global opportunities. In particular, it increases the opportunities for transnational learning and leveraging the knowledge coming from all subsidiaries around the world (Cavusgil et al., 2014). At the same time, it creates economies of scale that lead to reduced operating costs.

The global strategy improves the quality of products and their international recognition so that international marketing programs can be designed. Of course, on the other hand, it is a challenge for the management to coordinate its widely dispersed activities and maintain constant communication with its subsidiaries worldwide. Concentrating production and R&D reduces the flexibility of the company and makes it vulnerable to political and currency risks (Shah et al., 2012). Also, implementing a global strategy could lead to a lack of response to local needs and a loss of flexibility in
local markets. (Cavusgil et al., 2014). It is noted that the global strategy limits the ability
of the business to learn from foreign markets. Executives of subsidiaries in each country
react to competition without taking into account what is happening in other countries
and in global competition. Competitive movement is the same and takes place in
different countries simultaneously or in a systematic way (Shah et al., 2012). Global
strategy is considered to be most appropriate when the pressures for global integration
are high, but the need for local response is low. In such cases, business can focus on
creating standardized products, marketing and distribution strategies. At the same
time, these companies can pursue global profitability by achieving economies of scale in
production and concentrating their production in countries offering low-cost
production units. (Griffin and Pustay, 2002).

2.4 Transnational Strategy
The fourth alternative strategy is a combination of global and multi-domestic strategy
and is called transnational strategy. The transnational strategy combines the benefits of
global integration with the benefits of local response. To achieve this, it chooses to
centralize some of operations such as research and development and financial
management and to decentralize some others. In general, management operations that
are decentralized are human resources management and marketing, allowing local
managers of subsidiaries to adapt their activities and practices in order to better
respond to the local business and cultural environment. (Griffin and Pustay, 2002). The
transnational strategy tries to combine the main advantages of multi-domestic and
global strategy and at the same time minimize their disadvantages. The approach
followed is flexible with philosophy: standardization where possible and customization
where necessary. For the implementation of the transnational strategy the company:
(Cavusgil et al., 2014)

- Exploits economies of scale with few global suppliers and concentrates its
  production in a few locations where it can maximize its competitive advantage;
- Organizes production, marketing and other value-adding activities on a global
  scale;
- Optimizes local responsiveness and flexibility;
- Facilitates global learning and knowledge transfer;
- Coordinates global competitive movements, addressing competitors on a global,
  integrated basis.

A transnational strategy is most appropriate when the pressures for both global
integration and local response are high. The transnational strategy offers a solution to
competitive pressures and involves the creation of an integrated network of units with a
distinct role for each one. It responds to the pressures of local responsiveness, flexibility
and global efficiency (Shah et al., 2012). This strategy also promotes the flow of learning
and the dissemination of knowledge and encourages communication and cooperation.
Learning enables executives to respond more quickly to environmental changes by
redefining business activities and achieving global profitability without neglecting local
requirements (Daniels et al., 2015). However, the difficulty of balancing central control and local responsiveness makes it difficult to formulate and implement a transnational strategy. At the same time, the development of a networking culture among employees, the establishment of communication channels and the implementation of multi-criteria decision-making increase the cost of implementing this strategy (Daniels et al., 2015). In the long run, the majority of businesses implementing the transnational strategy need to include some local elements in decision making, as each country has unique characteristics (Cavusgil et al., 2014).

2.5 Evaluation of Alternative Strategic Options

The four alternative strategic approaches have similarities and differences. International strategy and global strategy have similarities as the companies that choose these strategies do business around the world in the same way. The difference is that while the international strategy copies the parent company’s successful strategy and exports it to the international markets; the global strategy considers the world a single market and produces products and services to meet the needs of customers worldwide. Global strategy is considered almost opposite to multi-domestic, as global strategy assumes that customers around the world are essentially the same whereas multi-domestic asserts that customers are fundamentally different and focuses on meeting the specific needs of customers at each location. Businesses pay particular attention to local conditions when customer preferences vary widely between countries and when significant differences are identified between local legal frameworks and economic and political conditions. International integration and global profitability are achieved when the company produces a standard product with little ability to differentiate on the basis of its characteristics or quality.

3. Human Resource Management in Multinational Enterprises

International Human Resource Management (HRM) is the management of human resources in multinational companies and includes the planning, selection, training, evaluation of employees and the management of labor relations in businesses that extend their operations internationally. International HRM faces a number of challenges in recruiting and managing employees in distinct cultural and legal contexts (Leat, 2007; Harzing and van Ruysseveldt, 2004). According to Torrington and Holden (1992), International HRM is divided into seven areas, known as 7Cs: Change, Cosmopolitans, Culture, Communication, Consultants, Competence and Co-ordination. The eighth area is Chain as each of the seven areas is linked to the other six. The main challenge for the International HRM is to ensure that the right person is in the right job and location and on the right pay scale. International HRM is more complex than HRM in a single country. The following are some of the differences between domestic and International HRM (Armstrong, 2012; Kelly, 2001; Cavusgil et al., 2014):
• New tasks for the HR department: The HR department deals with a number of new factors regarding international executives such as international travel, foreign tax systems that should not discourage expatriates from moving abroad, linguistic differences, government relations with foreign workers, repatriation of executives.

• Need for a broader, international perspective: International HRM is responsible for all categories of executives, who come from different countries and nationalities. Large multinational corporations are trying to establish practices that take care of executives such as rewarding training, housing, infrastructures and incentives for executives to move abroad.

• Involvement in employees' personal lives: HRM cares for expatriate executives and their families, providing assistance with their housing, health, children’s schools, their safety, and keeping their pay levels at cost levels living abroad.

• Managing a mix of executives: Subsidiaries can be staffed by employees coming from the country of parent company, the country of the subsidiary or third countries. The mix of employees depends on factors such as the level of international experience of the business, the cost of living in a foreign location and the availability of qualified local staff.

• Greater exposure to risk: The main concerns of International HRM officials are exposure to political risk and terrorism, which can increase both employee rewards levels and concern for the safety of employees and their families.

• External influences from government and national culture: Employees should be recruited, evaluated, and remunerated in a manner consistent with the laws, customs and regulations of each country. Each country’s institutional framework regulates issues of labor law and labor relations and in some cases can be so complicated that businesses delay the recruitment of new employees.

The main tasks of the International HRM Department are international staffing, training and development, performance appraisal, compensation management, labor relations and diversity management. International recruitment includes activities related to attracting, selecting and positioning employees in the business. Training involves the preparation and training of international executives and employees. Performance appraisal provides feedback that is needed for the professional development of employees. The formulation of the compensations and benefits of employees varies from country to country. Critical tasks of the department include interaction with trade unions, collective bargaining, and managing diversity of employees.

The following section presents the main functions and activities of the International HRM and the strategic goals and challenges of each (Cavusgil et al., 2014).

3.1 International Staffing Policy
• Selection of staffing strategy;
• Development of global managers;
• Recruitment and selection of expatriate executives;
• Avoidance of prejudice and nepotism;
• Cultivation of global culture.

3.2 Preparation and Training of International Executives
• Increase the effectiveness of international employees leading to increased organizational performance;
• Training of employees with emphasis on practical knowledge and information and development of transnational awareness;
• Minimizing cultural shock and failure to delegate tasks to expatriates.

3.3 International Performance Appraisal
• Evaluating the effectiveness of executives and employees abroad;
• Balance between standard and local performance standards.

3.4 Employee Compensation
• Development of remuneration management guidelines (basic salary, benefits, incentives);
• Actions to avoid double taxation of workers.

3.5 International Labor Relations
• Managing and interacting with labor unions, engaging in collective bargaining, managing grievances and complaints;
• Reduce absenteeism, accidents at work and negligent injuries and potential attacks.

3.6 Diversity in International Human Resources
• Recruit talents from different backgrounds who bring specialized knowledge and experience in problem solving and opportunities;
• Achieve gender diversity.


In order to operate in an international environment, a human resources department must undertake a range of activities such as human resource planning, staffing, training and development, compensation management, performance management and employment relations. The different types of international strategies influence human resources management and its role. The main mission of the International HRM is to plan and implement the HRM program that enables a business to be successful worldwide. The needs of a multinational enterprise in human resources are influenced by the decision-making process. The choice of centralization or decentralization is also influenced by the organizational structure of the business (Farndale and Paauwe, 2005).
When the structure of the international business segment favors centralization then decisions are made at the headquarters of the business. On the other hand, businesses that are based in many countries and favor decentralization, delegate many responsibilities to affiliate executives (Shah et al., 2012). In particular, when multinationals follow a centralized approach then it is usually preferred to employ top managers from the country in which the business is based. On the other hand, companies that follow a decentralized philosophy and decision-making are more likely to hire executives from the host country of the subsidiary. Most companies choose an intermediate situation between full centralization and full decentralization. These companies formulate and implement a comprehensive HRM strategy at their headquarters and assign many day-to-day human resources issues to subsidiaries. In this way, overseas subsidiaries cover their local needs, more effectively by addressing local conditions, cultures, and HRM practices and policies (Griffin and Pustay, 2002; Thite et al., 2012).

5. Discussion

Summarizing the above, we can conclude that the role played by multinational corporations in the global economy is becoming increasingly important. As multinational companies are constantly expanding into new markets and increasing the volume of their activities, they are becoming one of the most important economic players in international markets and in the world economy. The role of Human Resources Department at corporate and subsidiary level becomes crucial. The main functions and activities of International HRM include international staffing policy, preparation and training of international executives, international performance appraisal, employee’s compensation, international Labor Relations and achieving diversity in international human resources. Moreover, the issues that Human Resource Departments deal with cover their involvement in the formation and formulation of the parent and subsidiary’s strategy and policy, the definition of the forms and policies of human resources management, the relationships between the parent company and the subsidiaries, the way in which subsidiary’s HR department influences the formation and the implementation of a HRM strategy and the ways and channels of transferring and disseminating knowledge across the multinational network of entities.

References


**Further Readings**


