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**Globalising HR: Roles and challenges for the international  
HRM function**

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Centre for Performance-led HR, Lancaster University Management School  
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# Globalising HR: Roles and Challenges for the International HRM Function

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Global Capability, Knowledge Transfer, Shared Service, e-enablement, Outsourcing

## Abstract

This paper focuses on the new roles and challenges for the International HRM function. It highlights four key challenges facing international HRM specialists. The first – moving from traditional models of HRM towards more globally defined roles - has arisen from developments in technology, increasing regionalisation of business and the growth of networks within organisations. The second challenge concerns the need to develop global capability. The third challenge requires us to rethink the mechanisms that are used to transfer knowledge globally. The fourth challenge is cope with pressures for cost effectiveness, and the streamlining of systems, processes and sourcing activity. The paper then examines the pragmatic choices that IHRM functions are making to cope with these challenges. There are five areas of debate associated with these choices. The first concerns the pursuit of international HR shared service structures and the extent to which this facilitates global solutions. The second concerns associated developments in e-enablement and its role in integrating operations internationally. The third concerns the issue of specialisation and associated developments in outsourcing, insourcing and offshoring. The fourth concerns the role of interpersonal networking and formal organisation designs such as centres of excellence to help overcome the constraints that technology places around global knowledge sharing. The fifth and final debate surrounds the nature of the business partner role in international context, and the differing nature of line manager involvement in HRM across countries.

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## **Globalising HR: Roles and Challenges for the International HRM Function**

### **Key challenges facing IHRM specialists**

Global HRM is a rapidly changing field. Globalisation processes may be studied at the level of industry, firm and function. Studies of industry-level globalisation direct attention at factors such as levels of international trade, intensity of international competition, product standardisation, presence of international competitors in geographic markets, cost drivers and location of value-adding activities (Makhija et al, 1997; Morrison and Roth, 1992). Firm-level globalisation studies consider factors such as foreign subsidiary sales, export sales, level of foreign assets, number of foreign subsidiaries, and level and dispersion of top managers international experience (Ramaswamy et al, 1996; Sullivan, 1994, 1996). Functional-level globalisation studies concentrate on different mechanisms of people, information, formalisation or centralisation-based integration, organisation design features and the development of attitudinal orientations (Kim et al, 2003). As Malbright (1995, p.119) pointed out, inside firms "...Globalisation occurs at the level of the function, rather than the firm". However, as will be clear throughout this paper, the problem is that the HR function is not one that can be considered, currently, as being highly globalised (Hansen, Nohria and Tierney, 1999; Kim et al, 2003; Yip, 1992). It is widely accepted that within international business, HRM is the most likely activity to be localised (Rozenweig and Nohria, 1994).

Therefore, the UK's Chartered Institute of Personnel and Development commissioned research to study the impact of globalisation on the HR profession. Our research primarily examined function level phenomena inside organisations (see Sparrow, Brewster and Harris, 2004; Brewster, Sparrow and Harris, 2005; Sparrow and Brewster, 2006). Our project examined the differences between international human resource management (IHRM) and HRM in a domestic context and the extent to which IHRM is more closely linked to the business agenda than domestic HRM. One of the central findings was that an underlying shift in global thinking can be seen in the actions of several leading multinational enterprises (MNEs). They are being driven by the need to remain innovative in what may be contracting and rationalising markets, or markets that are being shaken up by new entrants and new competitive behaviour. Initiatives aimed at improving temporal, functional or financial flexibility are being

introduced side by side with integrated programmes intended to link work practices to the need to deliver radical cost improvements. In increasing flexibility, firms also want to change the nature of employee identification and their sense of involvement, and this changed identity knows few national borders.

In previous research we have identified a series of factors influencing the globalisation of HR functions. The organisational drivers and HR enablers in Figure 1 were derived from empirical examination of IHRM structures and strategies in 64 MNEs (the factor analyses are reported in Brewster, Sparrow and Harris, 2005), the role of 732 IHR professionals and 7 longitudinal case studies.

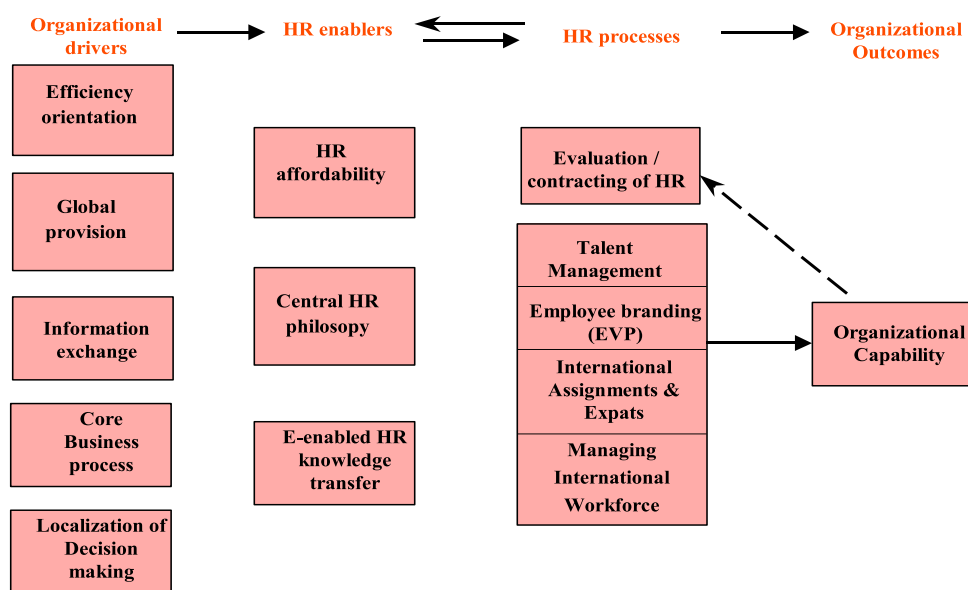


Figure 1: Model of Global HR

Source: Brewster, Sparrow and Harris (2005)

MNEs are pursuing several different models of IHR organisation and their IHR functions face a number of challenges:

- consequences of global business process redesign, the pursuit of a global centre of excellence strategy and the global re-distribution and re-location of work that this often entails;
- absorption of acquired businesses, merging of existing operations on a global scale, the staffing of strategic integration teams, and attempts to develop and harmonise core HR processes within these merged businesses;

- rapid start-up of international operations and organisation development as they mature through different stages of the business life cycle;
- changing capabilities of international operations with increased needs for up-skilling of local operations and greater complexity;
- need to capitalise on the potential that technology affords the delivery of HR through shared services, on a global basis, whilst ensuring that local social and cultural insights are duly considered when it is imperative to do so;
- changes being wrought in the HR service supply chain as the need for several intermediary service providers is being reduced, and as web-based HR provision increases;
- articulation of appropriate pledges about the levels of performance that can be delivered to the business by the IHR function, and the requirement to meet these pledges under conditions of cost control;
- learning about operating through formal or informal global HR networks, acting as knowledge brokers across international operations, and avoiding a “one best way” HR philosophy
- offering a compelling value proposition to the employees of the firm, and understanding and then marketing the brand that the firm represents across global labour markets that in practice have different values and different perceptions;
- identity problems faced by HR professionals as they experience changes in the level of decentralisation/ centralisation across constituent international businesses. As knowledge and ideas about best practice flow from both the centre to the operations and vice versa, it is not uncommon for HR professionals at all levels of the firm to feel that their ideas are being overridden by those of other nationalities or business systems.

In pursuing these developments, International HR directors are having to cope with four underlying challenges: managing the shift from international human resource management (IHRM) to global HRM; enabling capability development on a global basis; ensuring effective knowledge management; and providing HR services cost-effectively. We briefly consider each challenge in turn.

### **From international HRM to global HRM**

IHRM is characterised by a continual tension between the requirement to standardise HRM across international operations but also to be sensitive to local

circumstances and to allow several differentiated responses. This is one area where, as Evans and his colleagues (Evans and Lorange, 1989; Evans and Doz, 1992; Evans and Genadry, 1999) have put it, organisations are faced with a “duality”: they have to be good both at standardising and at respecting the local environment. Even this may understate the complexity. Organisations often split HR responsibilities in these areas between a global HR department, country management and business stream leaders. Definitions of the geographical nature of regions, their scope, their resources and their capabilities vary from organisation to organisation. The added value of the HR function in an international firm lies in its ability to manage the delicate balance between overall co-ordinated systems and sensitivity to local needs, including cultural differences, in a way that aligns with both business needs and senior management philosophy (Sparrow, Brewster and Harris, 2004).

Although discussion about the balance between integration and differentiation within IHRM has a long history, our work on the practices of MNEs shows that three additional complexities are now driving practice:

1. Largely on the basis of technology (notably the adoption of shared service structures, outsourcing of non-core activities and the e-enablement of many HR services, all discussed later in the paper) “a new line in the sand” is being drawn between integration and differentiation. Reflecting this, the debate now is not just about the difference between standardised and localised HR practices, but between optimised, standardised or localised practices, with there being considerable debate about the nature and meaning of “standardised” versus “optimised” HR processes. Optimising a process assumes that by comparing best practice, organisations can find the most effective elements of a process and can then pick and mix these elements into a single, highly effective model (a model that indeed no unit to date might yet have operationalised). Standardising a process may still be guided by assumptions of best practice, but usually one complete (deemed the best) model might be adopted (often that practiced in the home country!) and then other operations adapted to this single best way.

Stateless organisations operating independently of national borders under global rules of economic competition are few and far between. MNEs continue to have assets, sales, ownership of workforces and control concentrated in home countries or regions (Ferner, 1997; Ferner and Quintanilla, 1998). The strategies that they pursue towards globalisation of human resource management, and the associated shifts in centralisation and decentralisation, are therefore bounded by this inheritance. Decision making inside these firms has elements that are driven simultaneously by global, regional and national logics. However, there is a trend

towards the regionalisation of businesses and HRM (Rugman and Verbeke, 2004).

In order to handle this complexity, global HR networks have replaced many traditional structures to become the major organisational form for executing IHRM. Although often informal in their initial construction, networks are now being used more formally to: provide and enable value-added cost-effective global, regional, and local solutions in a series of core HR processes; identify customer driven pan-national issues; design solutions to meet specific customer needs and support the corporate people management strategy; demonstrate to customers that global connectivity adds value by sharing knowledge and expertise; and ensure that knowledge and intellectual property that resided within HR silos was made freely available throughout the organisation.

We believe that it is now clear that there is a distinction to be made between international HRM and global HRM. Traditionally, IHRM has concerned managing an international workforce – the expatriates, frequent commuters, cross-cultural team members and specialists involved in international knowledge transfer. Global HRM is not simply about covering these staff around the world. It concerns managing IHRM activities through the application of global rule-sets.

### **The global capability development challenge. Organisational capability**

We begin discussion where Figure 1 ends – the development of organisational capability. The mantra of organisational capability, supported by developments in both the use of technological capability (service centres, e-enablement of HR, and HR process standardisation) and marketing capability (talent management and employee value propositions considered at a global level) has in some firms begun to dominate the activity of international HR professionals (Sparrow, Brewster and Harris, 2004).



Why is this so? Trends of globalisation, market liberalisation, deregulation and technical evolution are restructuring global markets and challenging traditional approaches to gaining competitive advantage (Hamel, 2000). It is only the possession of specific capabilities and resources that now enables firms to conceive and then implement strategies that can generate what the economists describe as above-average rates of return (Barney, 1997). The term 'organisational capability' was adopted by Ulrich (1987) for the HR field. Ulrich and Lake (1990) then brought together perspectives from the fields of the management of change, organisational design and leadership, and argued that organisational capability was about competing from the inside out. Organisational capability focuses on the ability of a firm's internal processes, systems and management practices to meet customer needs and to direct both the skills and efforts of employees towards achieving the goals of the organisation.

In addition to the management of people, developing organisational capability includes the means through which the organisation implements policies and procedures. These means are centred around – and require HR professionals to understand – economic and financial capability, strategic/marketing capability and technological capability. As the HR profession becomes more involved in developing organisational capability, it has chosen to build alliances with – or, depending on your viewpoint, has been forced to work with – the dictates of the last two of these capabilities (Sparrow, Brewster and Harris, 2004). The first alliance is around strategic or marketing capability is based around offering uniqueness to customers. This marketing perspective has in fact been a significant driver behind approaches to talent management. The second alliance is based around technological capability. Perceived customer value is considered to result from responsiveness (meeting needs more quickly than competitors), the formation of endearing and enduring relationships, and the pursuit of service quality through guarantees. The development of shared service models and the e-enablement of HR systems are but two ways of delivering this organisational capability.

The idea also has its root in the resource-based view of the firm, which argued that in an environment characterised by the globalisation of markets, changing customer demands and increasing competition, it is the people and the way they are managed that are more significant than other sources of competitive advantage (Wright *et al*, 1994; Lado and Wilson, 1994). These newer models of strategy argue that competitive advantage is derived from both internal knowledge resources and the strategic resources or capabilities of the firm. It is 'bundles of resources' rather than any particular product-market strategy that provide an organisation with the capability to compete. These bundles of resources are generally considered to be complex, intangible and dynamic.

In order to make this diffuse concept of organisational capability more recognisable, Ulrich (2000) described the collection of attributes that it involves in terms of a series of important outcomes that result from their existence. The role of the HR professional is, it is argued, to help clarify these organisational capabilities and to craft the HR investments that are necessary to build them. It is easier to say what organisational capability *looks like*, rather than define exactly *what it is*. The following formula has become a commonplace explanation of capability in domestic HR strategy:

- *being able to move with speed and agility* into a new market in order to be the firm that sets the rules and then controls the future changes to these rules (in HR terms, removing bureaucratic processes, establishing clarity of governance to enable rapid decision-making, building safeguarding disciplines into the organisational thought process, and removing vestiges of old ways of doing things)
- *creating a brand for the firm*, such that its reputation draws consumers, and the brand associated with the customer experience of the firm also becomes part of the experience or identity of the firm in the mind of all stakeholders (customers, employees, investors). Employee actions and HR policies are aligned with this identity
- *a customer interface that captures and develops a more intimate relationship*, such that data on customers contains more insight into their actual behaviour and needs, business processes are built around these needs as a priority, and customers also have involvement in or can comment on the design and practice of internal systems (for example, providing feedback for performance management)

- *superior talent*, reflected in high levels of employee competence and commitment, such that there is an employee value proposition that makes the firm an attractive place to work, helps attract people into the right job, entices employees to give their discretionary energy to the firm, and orients them towards effective performance very quickly
- *leveraged innovation and learning*, reflected in new and faster-developed services and products, a culture of inquisitiveness and risk-taking, competencies of inventing and trying, and an ability and willingness to learn from mistakes
- *resources sourced across alliances*, whereby firms can work across boundaries, marshal connections, share information and develop a sense of mutual dependency between a network of partners, which means the best resources can be brought to bear on a situation, to everyone's benefit, without having to formally own or control them
- *assigned accountability*, such that standards exist for employees and that organisational decision-making (who makes them, how they are made and what processes are followed) is carried out with competence, authority and responsibility.

Although there is growing consensus about the attributes that represent organisational capability, comparatively little research has been conducted in two important areas:

- how such capability-based frameworks relate to MNEs and their strategies (Tallman and Fladmoe-Lindquist, 2002) – this requires better theoretical insight into the driving factors behind the strategies
- how a firm develops, manages, and deploys capabilities to support its business strategy (Montealegre, 2002) – this requires that we undertake more longitudinal studies.

Many current models of MNEs have been described as having a 'capability-recognising' perspective. This means that firms possess some unique knowledge-based resources. However, these resources are typically treated as being home-country-based or somehow belonging to the corporate function and top team. Bartlett and Ghoshal (1989) and Nohria and Ghoshal (1997) addressed the possibility that foreign national units could take a major strategic role within the multinational firm. Tallman and Fladmoe-Lindquist (2002) argue that what we need is a 'capability-driven' perspective – an understandable theory of multinational strategy based on how MNEs attempt to build, protect and exploit a set of unique capabilities and resources.

An important task for IHR managers is to grasp the overall business-level and corporate-level capabilities that are relevant to a particular international strategy. Tallman and Fladmoe-Lindquist's (2002) work makes it evident that globalisation can be seen as a strategic effort to treat the world (or a significant part of it) as a single market. This does not, however, imply creating single research and development or production centres, unitary logistic networks or indeed HR systems and processes. Rather, it is the international networking that surrounds these activities and the conduct of these activities in global contexts that provides significant organisational capability: 'The world becomes an important source for new knowledge as well as new markets' (Tallman and Fladmoe-Lindquist, 2002; p.116). MNEs can gain sustained competitive advantage by building on and leveraging their unique internal capabilities. Montealegre (2002) modelled the resources and process skills that form an important part of such capability:

- leadership, through the expression and subsequent articulation of strategic intent
- organisation culture, through the mobilisation of supporting routines already embedded in the culture
- information technology, not in the sense of technical investments but more in the way that these investments are leveraged to create unique resources and skills that improve the effectiveness of the organisation
- long-term view – developing a longer-term view of the strategy by developing and nurturing commitment
- social networks, through the cultivation of strong relationships with stakeholders inside and outside the organisation.

In the context of globalisation, organisational capability involves managing the conflicting demands of corporate control versus global co-ordination and standardisation of HR processes. IHR functions do not need to build totally standardised HR processes on a global scale but they must build a degree of common insight into the nature of shared HR processes and adherence to an overarching philosophy in the design of these processes.

### **The knowledge management challenge**

It is the creation of these common insights that lie at the heart of the knowledge management challenge. Desouza and Evaristo (2003, p.62) note:

*“... the literature addressing management of knowledge in a global context is best described as sparse. To date there is yet to be a significant undertaking that looks at issues in managing knowledge across borders”.*

In order to integrate knowledge, organisations must be designed and administered in ways that first create, capture, and protect valuable knowledge (Liebeskind, 1996), whilst the subsequent rapid transfer of knowledge across global units (be these business units or country operations) can only be achieved through the pursuit of broadened networks (see Lengnick-Hall & Lengnick-Hall, 2006). For Maznevski and Petersen (1997) effective globalisation requires a recognition of the complexity associated with different cultures, institutions, and economic and political systems. To manage global business processes effectively organisations have to rethink many of their traditional management mechanisms. Global teams, for example, have created an explosion in the quantity and complexity of interrelationships among the various national systems that exist inside international organisations.

However, the scale of the challenge of managing knowledge on a global scale is obvious. Organisations are composed of many diverse, interdependent work groups, such as new product development teams and manufacturing planning teams, all of which have unique decision domains, and develop unique perspectives in response to differential tasks, goals and environments. Although managers can act autonomously within each of these decision domains, they are affected by each other's actions. Consequently, mechanisms of integration (and the underlying capability to manage these integration mechanisms effectively) are needed above and beyond the simple summation of the different perspectives that exist within the organisation (Scarborough, Swan & Preston, 1999; Staples, Greenaway & McKeen, 2001).

We discuss the role of two such integration mechanisms in facilitating knowledge transfer - inter-personal networks and more formal organisation designs such as centres of excellence – later in the paper.

### **The cost-effectiveness challenge**

Knowledge transfer can be an expensive process, and having unique and country-specific HR resources also makes the cost of HR service delivery high. In practice, behind most IHR functions' recent restructuring efforts has been the need to deliver global business strategies in the most cost efficient manner possible. Cost efficient is not to be confused with “cheapest possible” – although it sometimes feels that way - because many of the firms we studied are making

substantial investments in getting things right (Brewster, Sparrow and Harris, 2005). Using the terminology adopted by Ulrich (1997) they are assessing their activities to cut out duplication and waste, to ensure added value and to move away from purely transactional and informational work, which can often be delivered directly by new technology. Echoing moves within domestic HR, at an international level this is reflected in a move towards those activities that deal with capability and business development.

At the international level as at the domestic level, there is an increased interest in an organisation's ability to measure the output of the HR function, reflecting the need to be able to deliver and prove cost reductions to ensure HR affordability with moves towards the e-enablement or outsourcing of transactional activities where the organisation considers this to be the most cost effective method of delivery. In addition to the understandable focus on transaction costs (and transaction cost economics theory), much of the decision-making about competitive advantage is also based upon the logic of specialisation. Initially this involves identifying elements of the value chain that can be separated from where the final goods or services are produced. Then, as competitive pressures increase, the next step is to focus on what the organisation is good at (core competencies or capabilities) and consider handing over control of those activities that do not fall into this category.

Such decisions are only feasible when there is a developed global HR and technology strategy and implementation plan, which can cover everything from the information management of data, to global appraisal systems, to compensation and benefits management, to a knowledge base with a single global Internet feel and look, and to a knowledge management system. We return to the difficulty of these decisions later in this paper under our discussion of outsourcing and insourcing. However, at this point it is important to note that significant progress in globalising HR service delivery through outsourcing, insourcing or offshoring is being made possible by developments in three areas (Sparrow and Brewster, 2006):

- systems and database technology (far more commonality of and integration between underlying systems as well as reliable and comparable information);
- process streamlining (enabling optimisation of processes)
- sourcing (enabling decisions about the possible centralisation or outsourcing of some areas of activity).

However, effective technology based solutions are to a large extent dependent on process streamlining. IHR functions aim to have, for example, the same

resourcing and recruiting process in Europe as in the South Pacific unless there are extremely good reasons for there being a difference. So, if one area has the best approach and technology for a graduate training programme, they should be able to carry out the global management of graduates. In the same way, if for example, most of the expatriate managers work in Asia, it may be cheaper and easier to administer them from Asia. With a technology base, time zones are becoming less important and cost efficiencies (in the long term, well after the initial set-up costs!) become far more possible.

### **How is the IHRM function changing?**

Given these four challenges, we need to devote much more attention to understanding the ways in which the HR function itself contributes to the process of globalisation. Global organisations are presented with multiple choices about how to structure and organise their HR organisations. We need to understand what pushes organisations in one direction or pulls them in another and with what practical implications? At a pragmatic level, researchers need to help advise on:

- Who should have the responsibility for the HR policies and the practice?
- How should such responsibility be integrated with the organisational strategy at a global and local level?
- What conflicts of interest can be expected between these areas and how can they be resolved?
- How should HR specialists manage their multi-line reporting relationships and what is really meant by the business partner role in global context?
- What is the role of the regional co-ordination processes and structures in the way people are managed within global organisations?

### **International shared services**

One implication of the move to shared services is that the structures of HR at country level change. By the end of the 1980s most multinational organisations had decided that splitting up the HR function on a country-by-country basis when the rest of the organisation was increasingly aligned behind global lines of business was not helping the function to achieve its objectives. However, concerns about diversity in employment law and the continuance of strong national influences on the employment relationship meant that total alignment of

the HR function with other business processes remained problematic. As a compromise, many organisations installed global HR directors as an extra layer in the reporting structure in order to create a position that acted as a strategic business partner. However, the result was often confusing as HR functions attempted to interweave their day-to-day administration work with the more strategic activities open to them. The advent of shared service thinking in the late 1990s provided the opportunity to transform HR structures.

Ulrich (1995) argues that whereas shared services might look like centralisation, they could turn out to be the opposite. The corporate centre does not need to control the resources or dictate the policies, programmes or procedures. Central structures are balanced by the presence of more HR managers close to the customer, bringing in elements of decentralised service. Central organisation of HR resources comes hand-in-hand with local (or, in an international sense, more probably regional) tailored advice, policy or practice designed around business needs. Administrative functions may be centralised but decision-making remains decentralised. Moreover, a wide range of services can be considered in terms of this need for common provision to recipients – not just administrative work.

We believe that few IHR functions will be able to ignore the continued development of shared service structures. Moreover, separating out those elements of the HR function concerned with business strategy from those elements of the role concerned with service delivery, it is argued, will have deep implications for the skills and competencies of HR professionals. Of course, practice does not always match theory. Central organisation can also imply that a small subset of HR experts hold sway over HR system design and, if they are not internationally minded, then perceptions of customer need may themselves be stereotyped. Lentz (1996) noted that successful organisations walk the tightrope between integrating competitive features of customer focus and flexibility on the one hand and economies of scale on the other. The activities and responsibilities that end up being devolved both to local line managers and to local HR staff vary considerably. Shared service models might in effect offer a 'take it or leave it' option to local management – seen for example in Eisenstat's (1996) reporting of a quip made by a manager at Apple that 'My HR representative is not a person, it's a floppy disk.' On the other hand, the models can also be ones in which HR acts as an 'intelligent agent' guiding staff and managers through a maze of complex policy.



The radical perspective links the development of shared service structures to parallel changes in technology that have enabled greater outsourcing of HR activity. Although technology (notably organisational intranets, web-based portals, interactive voice responses, and document and information management systems) has been an important part of the equation, it is a facilitator rather than a driver of change towards shared service models (Reilly, 2000; DeFidelto and Slater, 2001). Although technical innovation has enabled organisations to consider a much wider range of HR services on a common basis around the globe, the reasons for introducing shared services have been more to do with cost and quality of service.

Shared services help reduce costs by cutting the number of HR staff needed, by reducing accommodation charges, and by introducing greater efficiency into choices both on what services are provided and on how they are delivered. Cost savings in particular come from (Reilly, 2000)

- falls in HR headcount of between 20 to 40 per cent
- moving operations from high-cost locations to low-cost locations in terms of either office space or employee costs
- the centralisation of focal points used to buy external services (for example, the centralisation of recruitment services in 1999 saved ICL £2 million a year)
- the development of high-volume partnership arrangements with a restricted set of suppliers.
- An indirect impact is that the introduction of shared services makes the cost of HR administration far more transparent to the business.

The development of shared service models is having a significant impact on IHR functions. In combination with the other changes discussed in this paper – e-enablement, centres of excellence, outsourcing and offshoring – it is moving the focus of the IHR function away from managing a global set of managers towards becoming a function that can operate a series of value-adding HR processes within the business internationally. Historically, considerable energy has been spent translating central initiatives into what works within different countries. Now, however, there is a much stronger focus on cross-country and cross-business border implementation issues. HR is moving towards a world where it has to satisfy line-of-business – and not just country – needs, and this is beginning to shift the way that HR professionals think about problems (Sparrow, Brewster and Harris, 2004). The main change is that they now consider whether their organisation has good information systems in place, and whether this gives them the capability of delivering people-related services without their having to pass through the hands of the HR function.

The strategy adopted by the leading MNEs has tended to be one of establishing the principle of e-enabled HR first (see the next section), and then of reorganising the supporting infrastructure that is needed to enable this, such as the service centres. As with many HR innovations, service centres appear to have followed the ‘... Gulf Stream ... drifting in from the USA and hitting the UK first, then crossing the Benelux countries ... and Germany and France and proceeding finally to southern Europe’ (DeFidelto and Slater, 2001; p.281) – although how widespread it is we do not yet know. Even in terms of IHRM, when looking at country coverage, the overwhelming majority of these HR shared service centres are national – i.e. they cover a single country.

An example of developments within regional service centres can be seen in IBM's operations. IBM's European HR Service Centre and HR issue escalation (see Industrial Relations Services, 1999; Stevens, 2002; and Pickard, 2004). IBM's European HR Service Centre was based at their UK headquarters in Portsmouth. It was established in 1998 and provided support for over 100,000 employees in more than 20 countries. These 20 countries were serviced by 90 people representing 15 different nationalities. The majority of these people were young and spoke several languages. In 2001 the Centre received 252,000 telephone calls, 71,000 e-mails and over 2 million web hits. Delivering a high-quality service required enhanced internal control and issue escalation procedures to ensure that people knew their area of expertise and did not go beyond their capability. At IBM's *Ask HR*, the average routine phonecall was dealt with in two minutes. The target set was for 80 per cent of calls to result in satisfaction for the customer. These were level-1 issues that could be handled by generalist staff in the Service Centre. A further 19 per cent of issues required more sophisticated responses. These enquiries involved a degree of programme interpretation, issue resolution, training and troubleshooting. They were answered by specialists within the European Service Centre with a target response time of two days. The remaining 1 per cent of enquiries had to be referred to a small number of HR process experts who resided within the general HR function. When IBM bought PriceWaterhouse Coopers in 2002 it transferred HR administration to IBM Business Consultancy Services. In 2003 IBM acquired Proctor and Gamble's HR service centre in Newcastle. By 2004, for reasons of language capability, cost and a desire for stability of operations, IBM's Portsmouth centre was transferred to Budapest. Call centre jobs were first to be transferred, followed by the second tier jobs.

To date there does not appear to be a common path to the internationalisation of shared service models. Many organisations have chosen to create regional centres as part of a single international organisation structure. In contrast to IBM, Hewlett-Packard changed their country-based systems to regional centres but allowed the managers to stay in their original offices. They sent the work to the people, not the people to the work (Reilly, 2000). Another arrangement has been to use service centres to support global business streams rather than organise them at a regional level on a geographical basis.

The constraints tend to be around those HR services that are affected by employment law, employee relations, works councils, procedures governing dismissal and setting up an employment contract – all more country-focused activities (Industrial Relations Services, 1999). One of the biggest cultural differences affecting shared service models and the e-enablement of HRM concerns data protection. As one example, the holding and processing of personal data in EU countries invokes requirements to gain consent from employees and is associated with different restrictions in different countries (data listing religion and ethnic origin is forbidden for German and Italian companies).

Practice, however, also tends to show that the technological imperative of global service centres can override some of the constraints that exist. A good example of this is the Tomorrow Project at France Telecom. As part of its Tomorrow Project France Telecom moved its HR community and the whole workforce into more strategic roles. In three years from 1998 to 2001 40,000 people – nearly 33 per cent of the company – changed jobs and moved into re-profiled technical systems. At the same time it started to overhaul its own HR systems. There were 450 intranets in existence and these were collapsed down into 10 service centres covering various global operations. An analysis of the HR community showed that 62 per cent were involved in administrative work. As service centres were introduced, many HR services were e-enabled. The websites offered several services such as TalentLink, PlanetEmploi, and e.plan which handled most transactional HR activity as well as vacation scheduling and expense claims. Cost savings were such that the return on investment fell from a planned 18 months to 13 months. One instructive issue was that in France Telecom a recruitment process required four check-offs by senior managers. As this process was e-enabled, the HR function attempted to get rid of the manual signing off. Line managers objected and insisted that the webpage had a button inserted to print off hard copies of forms and enable a sign-off by a senior manager. HR acceded to the request reluctantly, but were delighted to find that after a few months the managers realised that this was an unnecessary delay. The practice stopped, and e-enabled HR led to a more decentralised recruitment practice and change in cultural practice.

In summary, then, the impact of shared service models on the IHR function has been to create a number of pressures forcing organisations to:

- consider the cost efficiencies of delivering HR services across different geographical areas

- identify the new HR co-ordination needs as organisations continue to move away from line-of-country reporting arrangements towards global lines of business
- provide the systems necessary to support strategy on a global basis
- understand which HR processes really have to be different, and which ones are core to all countries
- manage a process of migration towards regional and then global HR service centres
- cope with problems of information deficiency where country-based systems do not provide the information needed to support a global line of business
- manage deficiencies in their own manpower, where headcount savings mean that there is not a good match between HR professionals in each area and the capabilities that need to be developed.

Shared services have also been associated with a desire to improve the quality of HR delivery and to enhance levels of customer satisfaction, evidenced in a number of ways:

- greater professionalisation of technical skills within the HR function
- more consistency and accuracy in HR transactions, and less rework
- more awareness of and conformance to both internal and external best practice
- higher specifications of service levels for the internal organisation – and the development of greater trust and transparency – through service-level agreements or through activity-based pricing.

Issues that invoke cross-national working and interpretation are of course more likely to be escalated upwards to international specialists or centres of HR excellence. Shared services, then, can change the way in which international HR professionals are sourced with their work, and can also bring with them new control systems to govern and monitor their response.

### **e-enabled HRM**

e-enabled HRM (sometimes also called web-enabled) is another significant and developing trend in international organisations (Martin, 2005) that also has extensive resourcing implications for IHR functions. Solutions such as the e-enablement of many HR processes and extension of existing Information and Communications Technology (ICT) systems are of course often combined with developing shared services models or indeed outsourcing (CIPD, 2005a, 2005b). However, in its own right it will undoubtedly have a considerable impact on the role and activities of IHR departments, centrally and locally. e-enablement affects the credibility and authority of IHR departments, in turn having significant implications for the roles and activities of line managers (see the later section).

Part of the response to cost and service pressures on the IHR function is the pursuit of better ways to do things. Importantly, this e-enablement of HR is being engineered on a global basis. The use of standardised technology is also enabling operational integration in IHR, whilst the provision of a common portal front for employees can help integrate the HR diverse country operations around a common employer brand. Most organisations feel that they have only just started down the path of e-enablement, but they realise that technology will dramatically change what HR functions can do. The ability to get HRM information to and from, and support on to, line managers' – and even employees' – desks without a formal HRM intervention opens up new and exciting possibilities allowing HR to focus on its capability and business development roles.

The e-enabling of HR activity – both transactional and transformational HR work – is therefore seen as an essential step towards helping HR professionals to advise business leaders on the competitiveness of the firm. As part of this technical evolution, intimately connected with the development of the service centre model discussed earlier, we have also witnessed a process whereby many of the activities in the service centre itself are put on-line, and an ethos of employee self-service or self-reliance is developed (Ulrich, 2000).

Initially, the administrative transactions associated with the HR function (payroll processing, benefits administration, stock purchase plans, regulatory compliance) are made available to employees on intranets. The operations behind the scenes to handle this service may be managed in-house or may be outsourced to firms that have the technological expertise to offer such services at low cost, while also being able to answer employee questions and deliver a sense of employee self-sufficiency.

Ford made a number of moves towards cross-national HR platforms. It reorganised into regional business units, linked through global centres of excellence in 2000. In response to this, the HR function, which traditionally focused on delivering services at a national level, changed its emphasis in 2001 to become a pan-European organisation. The aim was to serve its customers more effectively and to strengthen its role as a strategic business partner. To support the new regional focus, Ford of Europe re-engineered the function to help reduce the level of transactional work that HR was involved in. Their approach was to:

- facilitate the development of a global HR platform by launching PeopleSoft across Europe
- use Six Sigma methodology (a quality management system) to identify the HR processes that required re-engineering
- centralise transactional and standardised processes into an internal service centre
- increase the availability of on-line tools to employees and line managers to enable them to access their personal data and HR tools.

The Ford HR intranet, HR Online, was used to increase employee self-service. This could be accessed by 8,500 employees working for the Ford Motor Company and Ford Credit in the UK and 13,500 in Germany. As the numbers of self-service facilities increased, the system became increasingly interactive. In July 2001, HR Online was connected to the PeopleSoft system, allowing the implementation of a wider range of self-service applications. This will free administrative staff currently required to manually update previous computer systems, enable HR teams to continue to review existing HR practices, and drive the standardisation of processes across Europe, which was one of the functional objectives for 2002 (Sparrow, Brewster and Harris, 2004). Transformational HR work – not just transactional work - can be e-enabled. More sophisticated HR practices such as parts of the recruitment and selection process, or the appraisal and performance process, may themselves be offered in more innovative ways through e-enabled solutions. On-line access rights and limited update rights can be a stepping-stone to managers authorising pay changes and performance management data and to employees providing not only factual data about their preferences but also more dynamic and interactive information around skills and personal aspirations.

Computing power is now being directed at developing 'proactive pull technologies'. These include modelling systems that allow individuals to see the consequences of their decisions or decision-support mechanisms to assist managers in the areas of discipline, training and selection. Mass customisation of terms and conditions becomes possible as variations and combinations can be recorded and monitored.

Actual practice of course lags behind the rhetoric – the e-enablement of training programmes, learning communities, compensation system administration, employee relations surveys, communications and grievance procedures is as yet still a rarity. Reilly (2000) argued that speed of progress will be determined by culture, not by technological capability. This comment was made referring to organisational culture and the extent to which this supports the conduct and practice of devolved management. This statement is just as applicable to national culture. From an IHR perspective, it is easy to overstate the extent and assumed ease of e-enablement. Brewster, Sparrow and Vernon (2007) note that:

- The implementation of e-enablement has been fraught with problems, in part because practitioners lack a sound body of theory and evidence on which to proceed, particularly in the area of innovation, absorptive capacity, technology acceptance and change management.
- The pursuit of this process across countries is also a relatively under-theorised one, but recent advances in institutional theory have focused on the causes and nature of the diversity in organisational practices, and differing degrees of receptiveness to new technologies (Streeck and Thelen, 2005; Brewster, Wood, Brookes and van Ommeren. 2006).
- The consequences of ICT enablement for HR specialists, line managers and other employees is not well understood, with researchers highlighting both significant benefits and problems for these stakeholders (Cooke, 2006).

Sparrow, Brewster and Harris (2004) found that no organisation had managed to develop a fully effective way of exploiting the possibilities associated with e-enablement on a global scale. Global organisations are only at the early stages of realizing the benefits of this change and are therefore just coming to terms with the implications of the use of information technology in global HRM. Most organisations are still struggling to understand what possibilities the new technology gives them. Nonetheless, initiatives are still being pursued and it remains a significant and developing trend, already with considerable impact on the role and activities of IHR departments.



### **Outsourcing, insourcing and offshoring**

We have alluded to the issue of outsourcing throughout much of our discussion of shared service models and e-enablement. Once more, practice is surrounded by complex mixes of possibilities. Insourcing, outsourcing and offshoring are all words used with abandon. They are of course all seen as different forms of specialisation, where activities may be moved to specialised units. However, there is a common challenge facing all these options (De Vita and Wang, 2006, p.4):

*“... The question of the extent to which each (core competence)... is singularly both necessary and sufficient to justify the outsourcing choice has never been satisfactorily squared... Ambiguity still reigns on how to establish what, and what not, should be seen as core. Is it what we do best? Is it what creates value? Or is it related to the strategic importance of the activity in relation to changing industry requirements?”*

Human resource outsourcing involves “...the purchasing by an organisation of ongoing HR services from a third-party provider that it would otherwise normally provide by itself “ (Hesketh, 2006, p.1). It is typically analysed from a resource-based view of the firm (Espino-Rodriguez and Padrón-Robaina, 2006). It is not the capabilities or resources that are the source of competitive advantage, but the exploitation of these resources through the existing business processes. Organisations have always outsourced some functions: payroll or management training for example. As a strategic tool, outsourcing revolves around decisions about:

- capability (whether to improve or acquire this);
- scale (providing well-administered services for populations large enough to justify the return on investment); and
- technology (the benefits of which may be acquired or leveraged through the development of shared services or outsourcing).

Hesketh (2006) cites research by the Everest Research group which shows that the spending on HR outsourcing has increased from \$75 million in 1998 to \$1562 million by 2004. Research across 28 organisations, such as Credit Suisse, Deutsche Bank, Royal Bank of Scotland, IBM, Shell, and Royal Mail Group shows that the following trends are still evident:

- Increased outsourcing of higher value HR processes such as recruitment

- Increasing use of shared service models
- Performance issues surrounding HRO deals
- The continued evolution of e-HR activities
- The emergence of new HR roles and competencies
- Continuing debates over HR and HRO measurement

The issue of outsourcing transactional aspects of HRM has been a source of considerable debate in recent years. Advocates for the outsourcing of HR activities (Csoko, 1995; Klaas *et al*, 2001) point to reduced costs, increased service quality produced by greater economies of scale, increased incentives and accountability for service providers, and increased access to experts in specialised areas. The most common targets for outsourcing are those HR activities that can most easily be ring-fenced, and include: payroll, training, recruitment, pensions administration and benefits administration.

For example, developments at BBC Worldwide associated with International recruitment were caught up in broader moves towards outsourcing. The internal international recruitment, selection and assessment function at BBC World Services was caught up in the current drive towards the use of technology and the attractions of a shared service model in this area (Sparrow, 2007). BBC People (the HR function) had to make judgements about how best to organise international recruitment activity which were bound up in general changes in HR delivery that had been taking place from 2002-2005. As part of its general restructuring the BBC underwent two waves of downsizing. The elimination of 3,780 jobs amounted to 19% of its UK workforce, or nearly 14% of its worldwide staff of 27,000 (Sparrow, 2007). HR was centralised and a business-partner model was introduced into divisions. As part of the process a number of professional services including parts of HR were outsourced. BBC People was reduced from around 1000 staff to 450 as part of a three-year change programme and 10 year outsourcing deal worth £100 million and saving £50 million). This involved a partial outsourcing process in which about 260 jobs moved to Capita (in Belfast) in 2006, transfer of posts to elsewhere in the BBC and the loss of 180 jobs. A list of 11 areas for possible outsourcing was drawn up around resourcing, remuneration, contracting, relocation, disability access services, HR advice and occupational health. The conduct of international recruitment comes under this remit. The functions finally outsourced included recruitment, pay and benefits (excluding pensions), assessment, outplacement and some training, HR administration, relocation, occupational health and disability access services. The HR function had to be aligned with strategic

objectives, which were to become more creative and audience-focused. Service delivery was split from strategic HR (led by a series of Heads of HR and Development in each of the 17 divisions). The focus of these roles was to build capability within divisions. A separate function was established, focused on service delivery to line managers, driven by service level agreements. Of the changes at BBC People, the HR Director said:

*“...I subscribe to the view that we will increasingly have quality organisations that can take some of our services and go one better than we can, because they have developed deep expertise in those services in a way most large organisations cannot”* HR Director, BBC People (Pickard, 2006, p.14) .

However, there are also many who are vocal about the dangers of outsourcing. There is considerable variation in how firms are responding to this opportunity, and not all of the responses are well thought through (Klaas *et al*, 1999, 2001). The arguments marshalled against outsourcing tend to emphasise exposure to opportunistic behaviour by contractors, limits to the ability of the firm to develop distinctive competencies within its workforce, and inefficiencies because of a lack of contractor insight into the client’s strategy and culture (Ulrich, 1997). We have recently seen some significant cases of organisations “re-insourcing” after their outsourcing contracts were seen not to have delivered what had been promised.

Moreover, the more that practices can be seen to rely on tacit knowledge (note our previous comments about the role of knowledge management in IHR) – the accumulation of experiences that is difficult to communicate to those without similar levels of experience – the more any control of the work process by those without such knowledge results in ‘sub-optimal’ management (Conner and Prahalad, 1996). In a global context, one can see local country managers arguing that much of the corporate HR armoury requires deep tacit understanding of the national culture and therefore should not be a candidate either for operation through shared services or indeed for any subsequent outsourcing. Organisations must make sensible assessments of this tacit knowledge constraint.

It has also been argued that if transactional activities can be e-enabled, then the benefits of outsourcing shrink considerably. Using another example related to international recruitment activity, it can be seen that technology now allows organisations to make alternative decisions. Advances in technology and e-enablement of recruitment processes have broadened the scope of geographical intake, which in turn as introduced new efficiencies into the process, which in

some instances means that firms can actually expand the scope of their internal activities, rather than outsource them.

An example of this is Nike. In 2005 they decided to move its recruitment in house in Europe, the Middle East and Africa to reduce costs and improve the overall quality of the applicants it hires (People Management, 2005). This decision followed the successful implementation of a software system at Nike's EMEA headquarters in the Netherlands. The system was introduced in 2002 to automate the recruitment process. It enabled applicants to apply directly for both specific jobs and on a speculative basis via Nike's website. Details are retained on file to create a database of future interest that can be searched for specific competences. 8,500 people are currently listed. Applicants are automatically asked to update their CV every six months for their file to remain active. From June 2003 to May 2004, a total of 556 positions were filled using the new system, 144 of which came from the future interest database. Nike saved 54 per cent in recruitment costs in the first three years of operation, and reports less reliance on external recruitment and search agencies as a result of the future interest database. The average time to fill vacancies fell from 62 to 42 days and the cost per hire also reduced. Having already establishing their own databases, they are now doing their own research for senior level headhunting and intend to establish an in-house agency for senior recruitment. This move was intended allow the organisation's resourcing group to play a more consultative and advisory role.

However, what about offshoring? Offshoring is the process of sourcing business services from overseas. It is defined by Abramovsky, Griffith and Sako (2005, p. 6) as "...a type of specialisation where the production of the goods or service is moved overseas". Hunter (2006, p. 2) defines it as:

*"... the act of transferring some of a company's recurring internal activities to outside providers who are located in a different country and market economy, under a formal service contract... As is a matter of common practice in outsourcing generally, both the activities and the factors of production (people, facilities, equipment, technology) and decision rights over how certain processes are performed are often transferred to the new provider".*

Offshoring is then seen as logical progression from the drive for specialisation. It may involve insourcing (where the production of the service is still owned and controlled by the firm) or outsourcing (where the firm uses a third party provider to carry out the activity). Hesketh (2006) points out that offshoring is not outsourcing per se, but rather concerns the completion of the same task in a different location where the costs are significantly cheaper. Decisions about this

are driven more by economic theories of labour arbitrage rather than the models of organisational capability that as we saw earlier drive thinking about shared service, e-enablement, and outsourcing.

One way in which the development of service centres affects the IHR function is through the process of 'global HR offshoring' (Crabb, 2003). Currently, the USA and UK together generate almost three-quarters of global offshoring activity. Whilst legal and cultural differences are still considered to inhibit the transfer of more advisory roles, it has become feasible to move HR administration overseas. Prime candidates for 'offshoring' include payroll, as well as pensions and benefits administration. According to strategy consultants McKinsey, the amount of 'offshoring' is expected to rise by an average of 71 per cent each year between 2001 and 2008 – twice the rate of most other business activities. Indeed, the global market for HR offshoring should be worth £27 billion by 2008, up from £0.6 billion in 2001. An interesting development is that rather than these activities being outsourced, most tasks are likely to be carried out by direct employees of the firms involved.

In practice, the decisions by Fortune 500 companies to offshore are driven (in order of importance) by: lower wage costs; reduction of other costs; improved service quality; focus on core competences; speeding up the process cycle; avoiding capacity constraints; extending the scope of services; strengthening an existing affiliate; and access to technology and infra structure (UNCTAD/ Roland Berger Strategy Consultants study, cited in Hunter, 2006). Given the distances involved in offshoring, the factors of production are rarely transferred to offshore sites, but the services, processes and decision rights are. Hunter (2006) estimates that a typical offshore deal from the UK to India generates cost savings of between 35-45 per cent once offshore overheads (onsite contract management, schedule delays and rework and transition costs) have been accounted for. Not surprisingly then, Kenney and Florida (2004, p.1) observe:

*"... Globalisation is much more than simply moving employment and activities from developed nations into nations with lower cost forces. Such a simple conclusion obscures the complicated skein of cross-border relationships that have evolved out of firm strategies seeking to balance a kaleidoscope of variables including labor and inventory costs, transportation, quality, concentration of valuable knowledge in clusters and temporal proximity to customers. Understanding firm strategies at a single moment in time is complicated enough, but unfortunately these variables also fluctuate".*

The difficulty faced by IHR functions is that the calculations of the cost benefits of these sorts of decisions is very difficult *and it varies across countries*. Pyndt and Pedersen (2006) found that the direct benefits of offshoring are easy to understand and are derived from savings in labour costs, foreign suppliers import of products or services and repatriation of profits. The indirect benefits of offshoring include the value of re-employing the employees in the home country affected by the offshoring. Capital savings can be reinvested in higher value jobs. Achieving these benefits is dependent upon the home country's ability to train, upgrade and re-employ the home workers. It immediately becomes clear that the institutional context that surrounds the employment relationship both in the country from which work is outsourced and the new location determines the attractiveness (or not) of offshoring. In Denmark the return on every unit of currency invested in offshoring was 1.15, but in Germany the equivalent return was only 0.8. In part this figure also reflects the fact that German firms tend to offshore to East European countries, which have higher labour costs.

### **Networking, social capital and knowledge transfer**

We noted at the beginning of the paper that in order to handle complexity, global HR networks have replaced many traditional structures to become the major organisational form for executing IHRM. In previous sections we have noted that the transfer of tacit knowledge is a major constraining factor in the application of shared service models and outsourcing. We now discuss two main options that have been pursued in facilitating knowledge transfer:

1. inter-personal networking and social capital in improving knowledge transfer
2. engendering knowledge transfer by design: the role of centres of excellence

The first model that has developed has relied on the growth of *inter-personal networking* as a way of managing the extensive demands of HRM in international organisations has been identified by a number of researchers. A fair amount is now known about the extent to which inter-personal networking is used by international organisations. Frameworks have been developed and these have led to taxonomies to describe how organisations conceive of and use inter-personal networks. For example, Tregaskis, Glover and Ferner (2005) conducted interviews in six firms describing the function, structure and process typically associated with international HR networks. These networks can be run through top-down or more collaborative remits and operate through leadership, project or special event team structures. They serve a range of functions including: policy development and implementation, information capture,

exploitation of knowledge, sharing of best practice, achieving political buy-in; and socialisation of members. Face-to-face contact is important in the process of relationship and reputation-building but is often supplemented by virtual working as a way of signalling more global cultures. The level of localisation is generally driven by the politics of acquisition, size, expertise and level of resistance in subsidiaries. HR leadership through networks can facilitate more collaborative solutions, but this depends on the strategic capability of the function, board-level support and strength of international HR networks.

In relation to this first model, Harvey and Novicevic (2004) have observed that global leaders must possess a complex amalgamation of technical, functional, cultural, social and political competencies. They made a distinction between human, social and political capital. Human capital leads to competencies. This is an area that is well researched and is quite well understood. Less well understood are the areas of social and political capital. Social capital leads to trust. It is typically reflected in the standing the manager has in the organisation and his or her ability to use that standing to influence others. It helps build on and meld the many cultural norms that exist in a foreign subsidiary. Political capital by contrast leads to legitimacy. Global leaders have to accumulate political capital — which as subsets includes reputational capital (i.e. being known in the network for getting things done) and representative capital (the capacity to effectively build constituent support and acquire legitimacy by using traditional forms of power) simply in order to be in a position to remove obstacles to co-operation. An important new direction for researchers will also be to advise international organisations on how they can use expatriation and inpatriation processes to develop and exploit these different forms of capital. By implication, we need more research on new assessment methods that are more closely aligned to the strategic requirement of knowledge transfer and the development of an international mindset (Sparrow, 2006). Building an international mindset provides a fundamental basis for overcoming inadequate political and social capital development.

There is a second model, which is to consider the use of networks by design. A key question that faces IHR functions is how to deal with the remaining HR business once other aspects have been e-enabled, moved to service centres or outsourced? What are the most appropriate organisational forms? In practice, MNEs have increasingly dispersed activities. They have relied on specialised and often network-based structures to co-ordinate these activities. The corporate headquarters typically adjusts its level of co-ordination and control to reflect the role of the subsidiary and the strategic importance of its mandate (Bartlett and Ghoshal, 1989). Organisations are composed of many diverse, interdependent work groups, such as new product development teams and manufacturing planning teams, all of which have unique decision domains, and develop unique perspectives in response to different tasks, goals and environments. Although managers can act autonomously within each of these decision domains, they are affected by each other's actions. Consequently, mechanisms of integration (and the underlying organisational capability to manage these integration mechanisms effectively) are needed, above and beyond the simple summation of the different perspectives that exist within the organisation. The brokering of knowledge inside global organisations through formal structures is one such mechanism (Sparrow, 2006). Can organisations improve knowledge management by design? We discuss one of the designs that has become an important feature of global organisations – Centres of Excellence (COE).

*“... a growing body of anecdotal evidence suggests that the COE phenomenon is increasing amongst the world's major MNEs, at the same time that this evidence also suggests that many firms are struggling with the managerial issues involved”* (Frost, Birkinshaw and Prescott, 2000, p. 1016)

The traditional and evolutionary progression of MNEs through international, multinational, global and transnational/ network/ heterarchy is well understood and generally discussed in the context of the trade-off between global integration and local responsiveness. However, as MNEs change their organisation design in response to the need to build more international capability, then as part of their natural development they often establish dedicated organisational forms to facilitate this. One such form is the centre of excellence (Ohmae, 1990, 1996). For example, some subsidiaries take on a strategic role in the global organisation that reaches beyond their local undertakings. COEs are organisational units that embody a set of organisational capabilities. These capabilities must be explicitly recognised as an important source of value creation (Frost, Birkinshaw & Prescott, 2000). There needs also to be a strategic remit, such as the intention to leverage or disseminate these capabilities to other parts of the firm. At the



subsidiary level, COEs tend to be established as a consequence of a long and slow internationalisation process within the organisation, or as a deliberate part of organisation design where HQ managers decide to grant autonomy to units that have also been given a specific strategic mandate. Increasingly small teams or units *within* either subsidiaries or central functions take a lead COE role in one area, with other units taking the lead in different areas of capability. Whilst the leadership of a COE might be vested in a physical location, the centre itself may be virtual, spread across networks of teams in different geographies. COEs can also be seen in the light of our previous discussion of specialisation – although COEs involve further differentiating the retained business services into those activities where additional benefits can be obtained if the capability can be leveraged internally.

There are three particular ways in which the IHR function is being driven by the development of COEs (Sparrow, 2006):

- managing the international relocation of staff as organisations – moving COEs nearer to the global centre of gravity of their core customers; reconfiguring their core competencies on a global scale by moving manufacturing, research and development or logistics operations closer to the best national infrastructures in terms of education or transport facilities; or setting up new centres as part of international ventures or as a result of mergers
- advising on the best HR strategies to co-ordinate and control such activities
- understanding the COEs that can be created within their own (i.e. HR) activities, and building networks of HR experts within these areas of competence on a global basis.

The role of the IHR function initially has been reactive – coping with the need to relocate staff into new countries, considering the special terms and management conditions that should surround such units, and eventually applying the concept of COEs to its own structures (Sparrow, Brewster & Harris, 2004).

In many cases, experts argue that COEs actually need to be quite loosely tied into the organisation and co-ordinated with other units if they are to help search for new knowledge and augment the capability of the MNE (Hansen, 1999; Kuemmerle, 1999). Control typically varies between being direct or indirect and through personal or impersonal mechanisms – what Harzing (1999) calls centralised personal control, formal bureaucratic control, output control or control through socialisation and networks. Recent research suggests that controlling

these COEs through socialisation proves dysfunctional. Understanding and building these more globally distributed centres of excellence into viable operations has therefore become a significant challenge. Holm and Pedersen (2000) found that they must be more than just specialised in their knowledge. They have to be able to maintain one or several critical fields of knowledge that have a long-term impact on the development of activity in the other subsidiaries and units of the MNE. In the longer term, IHR functions that themselves establish their own COE will begin to learn from the research that has already been conducted into research and development and other technical COEs already established.

It is clear that both network/project-based structures and centres of excellence have had a significant impact on the conduct and quality of IHR interventions and on the career trajectories of HR professionals. However, there is little clarity about the extent to which these networks can be or need be local as well as global; or external as well as internal. From a knowledge management perspective, there are important questions to be resolved as to the location and input of resources necessary for HR centres of excellence (Sparrow, 2006). Similarly, the ways in which network and project based activity can best be used to build social capital within the IHR function needs to be investigated (Sparrow and Braun, 2006). We now need to provide more directive research. Given the two different types of networks discussed, we now need to understand:

- Can protocols for managing these networks now be established?
- How does the configuration of networks change in relation to the concentration of expertise into centres of excellence?
- How do the various centres of excellence in HR activity broker their expertise throughout the organisation successfully both within and outside these networks?
- How does the operation of networks and centres of excellence help address the needs of line management for effective HR management?

### **The role of line managers in HRM**

We raise one final puzzle that still faces IHR functions. This is how to achieve the HR business partner role. Despite there being clear specifications about the nature of this role, "... the challenge lies in creating the contexts and practices through which the strategic partner role can be realised" (Smethurst, 2005, p. 25). In his original conception, Ulrich (1997) outlined four HR roles of employee champion (which was later split into two roles of employee advocate and human

capital developer), administrative expert (later re-termed functional expert), strategic partner, and change agent (later combined into a broadened strategic partner role and accompanied by a new leader role). In all of these roles HR acted as a business partner but the practical realisation of the job title “business partner” became that of “strategic partner” or “strategic business partner”. Exactly what was involved in this role was unclear. The boundaries between the attention given simply to business issues (i.e. working with line management but with an HR background, and focusing therefore on strategic execution) as opposed to higher level strategy formulation advice has once more become vague. The strategic business partner role has become opportunistic in its delivery. Whilst the complexities and strategic centrality of the international business partner role often affords the necessary context to create understanding, demonstrate value and relevance and acquire support from line managers, it also risks removing strategic influence of HR previously exerted by a central board-level role and subsuming it in a decentralized and more anonymous line relationship, dependent on the idiosyncratic skills and unplanned opportunities negotiated by HR practitioners.

Not only is there still considerable debate about the role of business partners in international context, but the *role and responsibility of the line manager* as a mediator in the delivery of HRM has been much debated over the years (Blyton and Turnbull 1992; Schuler, 1990). There is now considerable evidence that this role varies in a significant and consistent manner across countries (Brewster and Soderstrom 1994; Brewster and Larsen 1992; Brewster et al 1997; Brewster and Mayne 1994; Brewster and Larsen 2000; Gennard and Kelly 1997; Larsen and Brewster, 2003; Paauwe, 1995). The opportunities and the difficulties this creates for organisations are obviously magnified across international boundaries.

There are many unresolved questions about the distinctions about HR work is conducted within the “line management” category: responsibilities at the different levels will vary considerably; there may well be HQ/subsidiary differences. We believe that there is an opportunity now for research to address a number of important questions:

- Who has the responsibility, authority and accountability to set HR policies, and at what level?
- Who is responsible for carrying out the policies through into practice?
- How are we to understand the responsibilities of the different levels of line management that may be involved in these processes?

## **Conclusion**

To summarise the messages in this paper, the IHR function has come under pressure to evolve in response to a number of drivers, including:

- cost reduction
- contribution to business performance
- quality of service provision
- accelerated internationalisation.

In responding to these pressures we have seen a number of new organisational structures in the IHR function, the most notable of which have been:

- streamlining and centralisation of HR support functions with the implementation of HR service centres and platforms
- the emergence of e-enabled HR
- externalisation of certain HR activities
- HR organisations aligned with global business units
- increased devolution of responsibility for HRM to management.

We noted at the beginning of this paper that globalisation may be studied at a number of levels but have concentrated here on developments at the functional level. If other functional activities are being better connected across geographical borders through flows of information that are intended to enhance levels of innovation and learning, then the HR functions that service them are themselves going to be forced to become more globalised. The future of the IHR function will be both heavily dependent upon and will be shaped by the globalising activity of two contiguous functions: information systems and marketing or corporate communications (Sparrow, Brewster and Harris, 2004). By implication, the syllabus that we must teach and the knowledge base that we must develop will be influenced by thinking that crosses over the “borders” between these fields of knowledge .

It is perhaps worth emphasising as a final point that this paper has been focusing on new developments: it should not be thought that these are yet common currency amongst most organisations – even some of the enormous figures of future growth are provided by consultants who have a vested interest in “talking up” the market. Nevertheless, the kinds of strategic discussions that these developments imply and, indeed, necessitate will become ever more significant over the next few years. The transition towards such new organisations is at varying stages of completion within companies. However, the existing level of experience is sufficient to allow some appraisal of the successes and difficulties of these transitions. There has been a powerful confluence of philosophical models of HR, concepts of organisation and technological developments that have begun to change the landscape for IHR managers.

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