

A Short History of the Evolution of IHRM in the U.S.: A Personal Perspective

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Background—What a Way to Start!

Way back in 1960, during that festive, if not normally productive period between Christmas and New Year's Eve, my company's vice president for the Eastern Hemisphere called me into his office and announced: "I'd like you to move to Liège, Belgium to be Director of Management Engineering for our newly acquired subsidiaries in Europe. Our only problem there is that they've got twice as many employees as they need and your job will be to bring their staffing levels into line with U.S. standards. I'd like you start work in Liège by January 15. Your salary increase will be 20 percent. See Rudy, our personnel director, about overseas premiums and cost of living and other allowances and he'll give you some forms you'll have to complete to work in Belgium. Do you accept the assignment?" "Of course" I replied. In those days everyone said "yes" to job offers (at least if they wanted to receive another) and this was an exciting one. I previously had had short assignments in Montreal and Mexico City and an extended one with my family in Edinburgh, Scotland so I had some idea of what to expect. But it was on the walk down the hall to see Rudy that such questions occurred as "How do we sell or rent our house in New Jersey and get my wife and two young sons moved across the Atlantic in a little over two weeks?" Frankly, Rudy wasn't much help but that was the state of international personnel in 1960. We didn't make it by January 15th but we were moved (granted-into a hotel) and I was at work in Liège by the end of the month.

Although international personnel (as the function which has morphed into IHR was then called) was not my responsibility in Liège, my job as chief organizer, process engineer, and hatchet man had some clear employee relations implications and offered several learning opportunities. During the four years that I held that position, my personnel expertise was considerably enhanced on such subjects as the differences in termination laws and practices between the United States and Europe and among European countries (employment-at-will was and still is unheard of in most countries); trade unions in Europe are generally much more active and membership more inclusive; many employees have employment contracts that prohibit changing job titles or responsibilities without the employee's written agreement; employees are often protected by the laws and courts of both their home and workplace countries; thirteen or more months of pay is legally mandated for most employees but not uniformly across countries; age and years of service are given greater consideration than performance in promotions; governments provide benefits for employees that employers normally cover in the United States; and on and on. Indeed, I learned so much about European employee relations (and we did accomplish our staffing objectives!) that I was transferred to the European headquarters in Geneva and my portfolio expanded to include all European personnel activities, information technology, and several other functional responsibilities.

And after four years in Geneva, I learned that expatriate assignments, while usually very interesting and challenging, are not necessarily career enhancing. "You have more than exceeded your goals and objectives but to what extent", asked management in the United States, "is all your experience and knowledge of European practices more valuable than the experience gained

by your peers who remained at home?” This was an important question then and one that still is frequently asked in the early years of the 21st century. From a personal perspective, it convinced me that international employee relations was handled badly by most multinational corporations (many colleagues in other companies reported similar experiences) and represented a field with tremendous potential for imagination and innovation.

When I returned to the United States, the positions offered by my employer, while they might have been interesting eight years earlier, had little of the challenge and excitement of my positions in Europe. I resigned and joined the National Foreign Trade Council (NFTC) as Director of European Operations and Director of International Personnel and Employee Relations. It quickly became apparent that the second position had much greater potential than the first. The NFTC sponsored a small group of international personnel specialists from major multinationals that met from time to time (the Personnel and Employee Relations (P&ER) Committee) and had an exclusive agreement with the Department of State to distribute to all private sector employers international compensation data developed by the government. This worked well for both the State Department and the NFTC: State had only one organization to deal with about private sector international compensation issues and the NFTC had an effective monopoly on the distribution of government compensation data to the many organizations internationalizing their activities. And a great contact list!

The P&ER Committee pointed out that their primary if not sole interest was in the compensation of expatriates. Paying local nationals in foreign subsidiaries was the responsibility of local management and salaries were generally much lower abroad than in the U.S.; benefits were

usually mandated by local governments; no one wanted foreign labor unions to believe that negotiating positions were determined in Detroit or Houston – and few could understand the local contracts anyway; expatriate selection was typically accepting whomever a domestic product division could spare; management development, to the extent that it existed, was “showing those guys how we do things”. In short, ‘international personnel’ was essentially limited to figuring out how to pay Americans going overseas to manage subsidiaries or develop new markets. Management philosophy was clearly ethnocentric.

From a business perspective, the NFTC’s monopoly of the distribution of government international compensation data appeared to be a gold mine. It seemed too good to be true – and it was! Competitors soon learned about the Freedom of Information Act of 1967 enacted the previous year and easily convinced the Department of State that the NFTC monopoly had to be broken. This prompted a mad scramble to find out how all this started, discover who were the leaders in the field, and determine if there were other international personnel activities that could be developed. This research and all that followed are the subjects of the remainder of this paper. While there were many interesting developments in the field in other countries, this article concentrates on U.S. based multinationals and U.S. based agencies and organizations that have supported them. While there are some references to foreign corporations and practices, they are clearly not considered here in depth.

The 1950s --It Was About Expatriate Compensation

In 1953 U.S. Foreign Direct Investment (USFDI) was only \$16.3 billion - about double the figure at the end of World War II and not much more than double USFDI in 1929. Today USFDI

exceeds \$1.5 trillion. The Great Depression of the 1930s and World War II had severely limited foreign investment by U.S. companies and international business in general. But as interest in global markets increased, sending employees abroad to develop that business expanded exponentially and how to pay those employees became a major challenge. At that time the largest U.S. employer by far of U.S. citizens abroad was the U.S. government. It was only natural that employers should model their expatriate compensation approach on government practices.

Since a majority of the companies seeking to expand abroad were members of the **NFTC**, they urged the Council to obtain information about State Department practices and, if possible, develop access to government international comparative cost-of-living data. At the time the NFTC's Vice President for Taxation was **Joseph Brady**, a tax attorney, and it was he who organized the P&ER Committee described above and negotiated the NFTC monopoly for the distribution of State Department data.

Joe Brady was one of the earliest contributors to the field of international compensation but there were a few others of importance as well. One of the most significant pioneers was **J. Frank Gaston** of the **National Industrial Conference Board** – now the Conference Board. As a young economist, Gaston conducted research on local national compensation in Latin America. In 1955, with J. Napier, he prepared *Compensating expatriates for the Cost of Living Abroad* which was published by the Board. This seminal study on expatriates reported that at that time 37 percent of U.S. multinationals relied on State Department compensation data, three percent on the United Nations and the remainder on either company research or individual negotiation. It

also reported that 31 % of U.S. expatriates were in Saudi Arabia, 24% in Venezuela, and only 8% in Europe, all reflecting the dominance of the petroleum companies in international business. Following the report, Gaston developed an information service for multinational companies which was particularly noteworthy for its coverage of compensation for third country nationals (TCNs). In 1985, The Conference Board reorganized and sold this business to Organization Resources Counselors (now ORC Worldwide).

James E. Boyce and Arthur Nelson founded **Associates for International Research (AIRINC)** in Cambridge, Massachusetts in 1954 primarily as a vehicle for international research for Harvard and MIT faculty members. Following the hiring in 1964 of **Geoffrey Rowley** and **Richard Downey**, AIRINC became one of the major providers to companies of expatriate compensation data and services.

After a successful career in the petroleum industry as an engineer with the Lago Oil and Transport Company in Aruba and Creole Petroleum in Venezuela, **George Dickover** joined **Industrial Relations Counselors (IRC)** in 1952. He coined the term ‘balance sheet approach’ to describe the private sector’s adaptation of the State Department’s methodology for Foreign Service compensation under the Foreign Service Act of 1946. Since private sector employees are subject to foreign income tax whereas government employees are not, Dickover and his colleagues introduced ‘tax protection’ (among many other innovations) under which corporations reimburse employees for income taxes paid overseas in excess of that which they would pay at the same salary level at home. Shortly after Dickover joined IRC, a non-profit organization which is still active, IRC spun off IRCS, a profit making subsidiary, to conduct consulting

assignments and related activities. Subsequently IRCS was renamed Organization Resources Counselors (ORC) and more recently, ORC Worldwide.

There was very little written during the 1950s on the subject of international personnel, except that described above, by either university faculty or practitioners in the field. Interest in the personnel challenges of international business was just emerging.

The 1960s—Beyond Expatriate Compensation

Expatriate compensation continued to be the primary focus of international personnel specialists in the 1960s. But interest in other sub-specialties began to develop largely driven by business needs and academic involvement.

In 1962 a group of corporate international personnel specialists organized the **International Personnel Association (IPA)**. Horace Scharges of the Chase Bank was a prime mover of this group which included some of the brightest and best corporate practitioners in the field. The IPA was unique in placing most of its emphasis on international personnel topics other than expatriate compensation.

U.S. government **immigration** policies posed a serious constraint on international business development during the '60s. Since the passage of the *National Origins Act of 1925*, immigration to the United States had been restricted to 160,000 per year and temporary visas were severely limited. The situation was somewhat improved by passage of the *Immigration Act of 1965* which increased the immigration quota to 400,000 and started to recognize the needs of the

international business community. But as the decade came to a close it was still impossible to transfer executives from foreign subsidiaries to the United States for other than training assignments. Foreign executives on temporary visas could not legally perform any management functions.

The NFTC's P&ER Committee recognized the immigration challenge and spun off a new Immigration Committee to bring together personnel, legal, government affairs, and public relations specialists and develop arguments in favor of immigration reform to enhance international business. The leader of this effort was **Dennett Howe**, Manager of Personnel for International Divisions of Proctor & Gamble. Several of us including personnel, legal, and senior operating executives from General Electric, Coca Cola, IBM, and Gillette testified before the Subcommittee on Immigration of the House Committee on the Judiciary and successfully convinced the Congress of our international staffing needs: a new category, the "L Visa", became a reality. A young counsel for the chairman of that subcommittee was **Austin Fragomen** who shortly thereafter became the most visible immigration attorney working with global corporations (and others) in the United States. This experience was particularly significant for the international personnel community as it was one of the first successful moves to broaden the field beyond expatriate compensation. It was also one of the first instances of international personnel taking the leadership role in a multifunctional management initiative.

During the 1960s several leading academics developed an interest in multinational corporations and to some extent their organization structures and management styles. **Raymond Vernon** at Harvard and **Howard Perlmutter** at Wharton were among those at the forefront of this effort.

Perlmutter, particularly, with his conceptualization of ethnocentric, polycentric, and geocentric organizations had a significant influence on the international personnel function.

With the continuing focus on expatriate compensation, there were several important innovations in international personnel during the decade. George Dickover refined IRCS's services and introduced tax equalization (a methodology that ensures expatriates will pay taxes comparable to what they would pay on their salaries at home) which has become the standard tax methodology for private sector international compensation.

While the U.S. government had a huge data base detailing how Americans spent their money in the United States, they had very little information on those with incomes above \$20,000 per year. Since this information was important for determining expatriate allowances and the average salary of U.S. expatriates at the time was above \$25,000, government data had its limitations. The NFTC organized a research team that included experts from corporations, the Department of State, the Bureau of Labor Statistics, and two universities to develop meaningful data for higher income employees. The project was a great success, its findings incorporated into the practices of many companies, and it became the basis for several other research efforts in the years that followed.

The 1970s—Enter the Academics – and Others

Interest in international personnel continued to grow. Practitioners observed that they had moved beyond expatriate compensation and decided to expunge the designation 'international personnel' from their vocabularies. Concurrently U.S. domestic professionals became equally disenchanted with their appellation and 'human resources' and its international component, IHR,

were born. Objections to traditional international personnel terminology extended to other designations as well: 'expatriate' (not infrequently spelled 'expatriot'), for example, was replaced by 'foreign service employee' ('FSE'), 'international staff', 'international assignee' and several other similar euphemisms.

University professors began to develop an interest in international human resources and several wrote articles that influenced the function. Howard Perlmutter at Wharton was particularly involved and in addition to his articles and participation in conferences, he encouraged several of his doctoral candidates to participate in IHR projects with the NFTC and others. David Heenan, for example expanded on his Wharton doctoral dissertation which was published in 1975 by the University of Texas at Austin as *Multinational Management of Human Resources: a Systems Approach*.

International labor affairs became another subject of interest to IHR professionals during the '70s as trade unions, particularly in Europe, had an important impact on the growth and profitability of U.S.-based multinationals. **Robert Copp** of Ford and **Vernon O'Rourke** of Standard Oil of New Jersey (now ExxonMobil) were particularly effective in generating interest and support for their initiatives in international industrial relations.

While I played an active role in many of these initiatives, the NFTC, as a non-profit membership organization, became somewhat constraining and I resigned in 1974 to join Human Resource Services and the RHR Institute as vice president of both organizations. Two years earlier I had supplemented my efforts at the NFTC and started to teach European Management and

International Comparative Management as an adjunct associate professor of international management at the New York University Graduate School of Business Administration. A year later, while continuing to teach at NYU, I was recruited by ORC to head up their international HR practice and succeeded the widely admired George Dickover (see above) who had recently passed away.

The highlight of my brief sojourn at HRS and the RHR Institute was to introduce the monthly publication *Innovations in International Compensation* with **Dan Moore** as Editor. Dan had recently retired from ExxonMobil as Director of Compensation. He was among the foremost IHR innovators of the period and had been the primary author of the NFTC project on U.S. expenditure patterns described above. Several leading academic, government, and business experts contributed to our new publication and it survives today as *Innovations in International Human Resources* published by ORC Worldwide. Professor Malcolm Salter of the Harvard Business School was among the many early contributors with his *Manpower Planning and Compensation Priorities in Emerging Multinationals*.

ASPA (the American Society for Personnel Administration – now SHRM) recognized the growing importance of IHR and in 1976 organized ASPI (I) to focus attention on international human resources issues and challenges. While in the 1970s ASPA (I) considered itself fortunate to interest 100 professionals in their activities, today SHRM attracts several thousands to their international conferences.

From an IHR perspective, two of the most important events of the 1970s were the passage of the *Tax Reform Act of 1976* and the *Foreign Earned Income Act of 1978*. Increased taxation under this legislation made U.S. expatriates extremely expensive, led to a significant drop in their numbers, and generated a dramatic increase in the employment of third country nationals (TCNs). When I pointed out the adverse effects of the legislation to a senior member of Congress he simply commented: “Legislators just love to tax as much as possible high income citizens who are unlikely to affect our reelection.” And he was a Republican! This legislation also led companies to reevaluate expatriate compensation practices with a particular emphasis on cost reduction and differentiating (i.e. reducing) the compensation packages of TCNs.

Particularly important, the IHR community sought the advice and support of the major accounting firms to help them minimize the adverse impact of high expatriate tax costs. This was the introduction of the accounting firms to the IHR arena. They have been very active and increasingly dominant in the field ever since. **Richard Hammer of Price Waterhouse** and **Robert Castles** and shortly thereafter **Robert Klein of Arthur Young** were the leading protagonists in the early acts of this drama. It did not take long for all of the other major accounting firms to enter the fray.

The 1980s—Country and Culture

This was the decade of the Japanese. William Ouchi wrote about Theory Z as a Japanese alternative to Douglas McGregor’s 1960 Theory X and Theory Y on employee motivation. Many were predicting that the 21st Century would be the Century of the Japanese and there was a particular interest in their human resources policies considered key to their financial success.

No book published before Geert Hofstede's *Culture's Consequences* (1980) had been as influential in the field of IHR and its future development. The book, based largely on Hofstede's studies of IBM employees around the world during the late 1960s and '70s generated great interest, not only in the scholarly public for which it was written, but with the IHR practitioner community as well. Indeed it is one of the few books ever published in the field that has been particularly meaningful to both the academic and practitioner audiences.

The American Compensation Association (ACA, now World at Work) introduced for the first time training courses for IHR practitioners initially on expatriate compensation but later in the decade on local national compensation and international benefits. SHRM continued to expand its international activities and began to play a significant role in the World Federation of Personnel Management Associations (WFPMA). IHR consultants started to proliferate and develop practices in every conceivable sub-function of the field.

Information technology began to play a more important role in IHR. Organizations that had traditionally maintained that volume was too low and variations too great to justify mechanization, computerized their expatriate systems and compensation programs.

During the 1980s some U.S. companies started to view their employees in other countries as corporate assets rather than as just employees of foreign subsidiaries. Some started to develop HR policies and practices to reinforce that thinking. For example, in 1989, Pepsi Cola was determined to globalize the perspectives of all of their employees and introduced 'Share Power',

a program that granted stock options to most of their 250,000 employees worldwide. Others such as Motorola, Starbucks and Dupont were not far behind. Still others began to give worldwide career opportunities to their employees of all nationalities.

A growing number of corporate IHR practitioners developed a much greater interest in and programs for local national benefits and compensation, training, management development and several others. Many of these were repackaged domestic programs but at least it was a start. As time went on, international expertise was introduced and the programs became more effective.

The 1990s—From International to Global

During the 1990s university faculty in large numbers discovered international human resources as a field of interest and the literature expanded dramatically. Professors Briscoe and Schuler, who wrote this book, were two of the leaders. But many others including Nancy Adler, Stewart Black, Chris Brewster, Lisbeth Claus, Peter Dowling, Paul Evans, Hal Gregersen, Susan Jackson, Mark Mendenhall, Vladimir Pucik, Paul Sparrow, Mary Teagarden, Noel Tichy, and Mary Ann Von Glinow contributed as well. And still others in the tradition of Geert Hofstede such as Christopher Bartlett, Sumantra Ghosal, Charles Hampden-Turner, and Fons Trompenaars wrote volumes that were particularly popular with practitioner and non-specialist audiences.

Globalization was in its heyday and corporations were expanding worldwide at a hectic pace. Whereas historically most companies' international operations had been limited to developing new markets, providing services, and manufacturing for those markets, overseas manufacturing for the U.S. market (both through offshoring and outsourcing) became a common practice. This

change in emphasis had an important impact on global staffing as well as in generating hostility from those who opposed 'exporting U.S. jobs'.

Historically most U.S. international assignees had been male and their non-working wives followed as 'trailing spouses' with their families. But the rapid increase in dual career couples presented new challenges for those responsible for staffing foreign operations. In the 1990s many of both sexes resisted foreign assignments unless both husband and wife (or partner) could be offered positions in a common location either with the same company or another with operations in the same city (or at least within commuting distance). To assist companies with these complex challenges a number of consulting and service firms were organized to provide advice and help in finding housing, schools, language training, cultural indoctrination, and innumerable other services for single assignees as well as traditional and non-traditional expatriate couples and their families. Suggesting that an employee accept a foreign assignment without a whole host of support systems was a thing of the past

IHR departments were not exempt from a new focus on limiting corporate employees to those with 'core competencies' As Peter Drucker observed: "Ten years from now, a company will outsource all work that does not have a career ladder up to top management." Coupled with an emphasis on reducing head count, many IHR leaders looked for specialized third party providers that would take over many of their administrative functions. One of the early activities to be outsourced was expatriate compensation administration, the original bread and butter of the corporate international personnel function. The major accounting firms have been among the primary providers of this type of service.

During this time, many companies eliminated their international divisions and set up global product divisions. This often led to 10 or more IHR departments (one for each product division) which in turn led some to set up some form of centralized IHR service unit to replace the multiplicity of ineffective IHR functions. Some of these centralized units reported to higher levels in the organization simply because there was no place else to put them. Others gave responsibility for IHR to one product division and expected them to provide IHR services to all the other divisions. Without doubt IHR gained more power in some organizations; in others it lost whatever power it had. A primary factor in determining which of these transpired was the importance that senior corporate management placed on the function and another was the leadership skills of the principal players in the IHR function.

2000 and Beyond—More Linked to the Business Context

Clearly IHR has had a dynamic past and IHR professionals can expect change to be a primary characteristic of their future. Already we are seeing that some major innovations of a decade ago are being questioned and replaced by still more innovations. For example, several of the companies that offered broad-based stock options to their employees around the world during the 1990s have begun to question the effectiveness of these plans as motivators, particularly for employees in foreign countries. Microsoft, for example, has replaced its stock option program with a restricted stock plan. But will all or any of these programs continue to meet their objectives over time? Certainly the weakness of the stock market during the first couple years of the new century had an important impact on the thinking about company stock programs. While the stock market turned around and became more attractive during 2003, the concurrent

weakening of the U.S. dollar made dollar denominated equities less attractive particularly to employees living and working in strong currency countries such as those in the Euro-zone. And rapid change has not and will not be limited to compensation.

The continuing emphasis on productivity improvement and its consequent impact on head count reduction may well make the outsourcing (e.g., to consulting and accounting firms) of an ever increasing number of IHR functions inevitable. Only those functions that management considers essential to retain in house will survive and it will be incumbent on IHR professionals to demonstrate clearly their indispensability and contribution to corporate success. No doubt many of the IHR positions eliminated by global corporations will resurface in the accounting, consulting and other third party provider organizations (such as moving and real estate companies) but the nature of those positions and particularly their future growth potential will change significantly. Consider some of the future possibilities of the corporate IHR function:

- Will it become a specialized support function? If so, more outsourcing is a real possibility.
- Will IHR become primarily a purchaser of packaged services?
- To what extent will IHR become interpreters and enforcers of government regulations?
- Will IHR be primarily advisors and consultants to line management?
- Or will IHR be a respected and effective strategic partner on the management team?
- Which IHR sub-functions will be replaced by technology?
- Will the emphasis of IHR be on innovation or 'best practices'?

- Will careers in IHR be limited to a functional silo or will there be progression for some through other functions and international assignments to broad management responsibilities?
- What unique skills does IHR bring to the management table?

As we have seen, IHR today is an entirely different function than it was a half century ago. And it is inevitable that it will be entirely different than it is today in far fewer than fifty years into the future. The future will be determined by those in the function and their ability to demonstrate their value to their organizations. IHR encompasses far more specialties than in the past but the function has become fragmented among many specialist organizations, consultants, and third party providers. This fragmentation has its plusses and minuses. On the plus side there are the advantages of broader responsibilities for a few and specialization for the many. To the extent that greater focus and standardization can lead to improved quality, recent evolution may be positive. The opportunity for multiple IHR career options may increase interest. On the other hand, standardization can lead to the commoditization of those activities that are affected. Standardized ‘solutions’ are frequently in search of a badly defined problem and clearly inappropriate for many of the challenges to which they are applied. Coordination and integration among multiple organizations are inevitably more difficult.

But as in the past, the future success and positive evolution of IHR will depend on the leadership and imagination of the change agents and the effective implementation of sound practices. A sound balance between innovation and best practices is essential. Professionals from many different types of organizations need to be involved: global corporations, universities, consulting

firms, and third party providers. How effectively these organizations work together towards common objectives and, above all, how well they collectively develop the next generations of professionals will determine the success if not the survival of the function.