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Resolving ethical dilemmas through international human resource management
A transaction cost economics perspective

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Abstract

This paper examines the interaction between cross-cultural variation in ethics and international human resource management. Literature is reviewed that suggests the ethical orientation of a culture can vary based upon whether the culture values collective outcomes or adherence to generally accepted rules, processes, and rights. Drawing on transaction cost economics and social contracts theory, it is suggested that differences in ethics between a multinational organization and its host culture(s) can damage the multinational's reputation, reduce its ethical decision-making capacity, raise its transaction costs, and reduce performance. Theory is developed suggesting the appropriate approach to international human resource management can attenuate these problems.

Keywords: Ethics; International human resource management transaction cost economics

1. Introduction

The competitive environment of business is becoming increasingly globalized (Kanter, 1991). A key factor that influences whether organizations are successful in the global arena is their approach to human resource management. International human resource management can be defined as the "process of procuring, allocating, and effectively utilizing human resources in a multinational corporation," with the objective of balancing the needs of

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autonomy, coordination, and control for the purpose of global competitiveness, flexibility, and learning (Fisher, Schoenfeldt, & Shaw, 1999, p. 806). International human resource management encompasses a broader set of issues and also may involve more risks than human resource management limited to a particular domestic context.

Perhaps one of the most salient issues in international management involves the need to balance the often-competing demands for global efficiency and local adaptation (Prahalad & Doz, 1987). For example, organizations might realize significant economies and reduce redundancy by developing products that can be introduced in multiple markets. However, organizations also face pressures from the institutional environment to adapt to local conditions. An organization's institutional environment can be defined as the set of rules, values, and norms that are considered to be legitimate in a particular context (Ashforth & Gibbs, 1990; Meyer & Rowan, 1977). Organizations adapt to pressures from their institutional environments through the process of institutional isomorphism, a mechanism that induces them to resemble other organizations that face the same institutional environment (DiMaggio & Powell, 1983). Organizations become isomorphic with their institutional environments through legal and regulatory constraints, uncertainty-reducing imitation, and by adopting legitimated managerial practices (DiMaggio & Powell, 1983). Accordingly, human resource management practices in multinational organizations are shaped by the often-competing demands for internal consistency and isomorphism with the local institutional environment (Rosenzweig & Nohria, 1994; Rosenzweig & Singh, 1991). For example, multinational organizations can potentially achieve global efficiency through the imposition of worldwide, internally consistent, human resource practices on local affiliates. Alternatively, greater conformity with local requirements can potentially be obtained by allowing local affiliates greater latitude for adopting practices that are indigenous to the host country (Perlmutter, 1969; Rosenzweig & Nohria, 1994; Rosenzweig & Singh, 1991).

National culture is arguably one of the most important factors in an organization's institutional environment that influences human resource management (Hofstede, 1980; Rosenzweig & Nohria, 1994). The national culture of a parent company may influence its ability to adapt to local conditions, as well as the extent and quality of communication between the parent company and local subsidiaries. Ethics, or what is considered morally appropriate in a society, is an important element of national culture and several studies have documented the phenomenon of cross-cultural variation in ethical behaviors (Carroll & Gannon, 1997; England, 1975; Hampton-Turner & Trompenaars, 1993; Langlois & Schlegermilch, 1990). As part of a multinational organization's institutional environment, the ethical orientation of a particular culture, therefore, may have a significant impact on human resource management in multinational organizations (Carroll & Gannon, 1997).

Indeed, the human resource literature is rife with examples of managers confronted with ethical dilemmas posed by operating in a culture dissimilar to their own (Carroll & Gannon, 1997). For example, faced with marginal profitability and declining circulation, *Reader's Digest* decided to close its Japanese subsidiary (Grundling, 1991). However, Japanese business culture includes very strong norms of lifetime employment, and layoffs are generally proscribed even in difficult economic times (Abegglen, 1956; Clark, 1979; Cole, 1979; Dore, 1973; Kagono, Nonaka, Sakakibara, & Okumura, 1985; Lincoln & Kalleberg, 1990; Ornatowski, 1998). Japanese public reaction was fierce as the company was charged with