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**TOWARDS MODELING HUMAN RESOURCE MANAGEMENT OF
INTERNATIONALIZING SMALL AND MEDIUM SIZED ENTERPRISES**

Master's Thesis in
International Business

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ABSTRACT:

The aim of this study is to increase the understanding of international human resource management of SMEs, and to formulate a model of IHRM of SMEs. In the study, it is found out how internationalization reflects to the IHRM, which factors affect the IHRM and how they affect, and how HRM has internationalized in relation to the internationalization process of the overall business.

The study consists of theoretical and empirical parts. The first theoretical part deals with the HRM of SMEs in order to increase the understanding how HR issues are managed in SMEs in general. The second part of the theoretical framework deals with the internationalization process and the international human resource management of SMEs. In the end of the theoretical part, a model of IHRM of SMEs is formulated which is used as the base for the empirical study. This study was conducted as a qualitative case study, and eight different Finnish SMEs were chosen to the interviews. In conclusion, a final model of IHRM of SMEs is presented which is modified according to the empirical data.

The research results indicate that internationalization is reflected in different ways in human resource management of SMEs. HR issues need to be considered already at the early phase of internationalization. Internationalization of the companies complicates HRM of SMEs because there is a need to take different legislations and cultures into account. SMEs also do not have any common way to manage HR issues, thus they use IHRM practices very differently with varying levels of informality and formality. Different internal (e.g. management, corporate culture and values) and external factors (e.g. legislation and cultures of countries) influence international human resource management of SMEs. It is important to recognize the factors, and try to turn the effect from negative into positive. Constant discussion with business department of the company is needed in IHRM of SMEs in order for HR to be aware of the changes in business and to be able to support the business in the most effective way.

KEYWORDS: small and medium sized enterprise, human resource management, international human resource management

1. INTRODUCTION

1.1 Background

The importance of small and medium sized enterprises is significant in the Finnish economy. According to the Central Statistical Office of Finland, there were altogether about 322 000 companies in Finland 2012, from which 99.8% were small and medium sized enterprises (SMEs). (Suomen Yrittäjät 2014). The situation is not like that only in Finland but also in most other economies (European Commission 2013). Even though small and medium sized companies employ a lot of people, human resource management (HRM) of these companies has been researched quite poorly (Mayson and Barrett 2006: 452). Especially the consistency of the different studies in HRM practices is weak (Barret and Mayson 2007a: 307). Earlier research of HRM has been mainly concentrated on larger firms (Saru 2009: 12), although HRM problems are a huge concern of many SME managers (Tocher and Rutheford 2009: 471). Also Rissa (2007) refers in his article to professor Guest by stating that especially small employers have the biggest challenges in human resource management because they often do not have any HR professionals and usually they do not know that at the same time, when improving job well-being in the company, it is also possible to improve productivity.

Actually the interest towards SMEs' HRM has increased gradually (Sheehan 2013: 1– 2). For instance, Saru (2009) has researched in her doctoral thesis how HRM, HRD and OD perspectives can improve SMEs' performance, whereas Saridakis, Torres and Johnstone (2013) have studied whether HR practices could enhance organizational commitment in SMEs with low employee satisfaction. Cassel, Nadin, Gray and Clegg (2002) have studied how HRM practices are used and how effective they are in small and medium sized enterprises. Especially a couple of the HRM practices, training and recruitment, have been noticed in different studies (Abbot 1994; Banks, Bures and Champion 1987; Barret, Neeson and Billington 2007b; Carroll, Marchington, Earnshaw and Taylor 1999; Storey and Westhead 1997), but only a few studies (e.g. Harris and Holden 2001; Monks, Scullsion and Creaner 2001) were found, which deal with what the human resource management is like in internationalized small and medium sized enterprises. Actually Festing (2007: 15) states that empirical studies in the field of international human resource management of SMEs are scarce, thus the gap should be

filled by delivering qualitative and quantitative studies which concentrate on international human resource management of SMEs.

1.2 Purpose of the study and research questions

It has already been noticed that small and medium sized enterprises cannot be managed in the same way as large enterprises (Welsh and White 1981: 18); thus it concerns also internationalizing SMEs. This study takes an international approach to HRM of SMEs because the world is constantly globalizing more and more, and also small and medium sized enterprises are encouraged to become international (Elinkeinoelämän keskusliitto 2011; Yrittäjät 2013). This also increases the importance of international human resource management of SMEs. Only a few studies focusing on international human resource management of SMEs were found, which truly indicates the research gap in the field. Thus the main purpose of this study is to increase understanding in this field and to create a model of international human resource management of SMEs. This research is focused on already internationalized small and medium sized enterprises in order to offer valuable information to SMEs, which are planning to internationalize. The research problem of the study can be compressed into the following research questions:

How does internationalization reflect to the HRM of SMEs?
- Which issues have affected the HRM of SMEs after the internationalization?
- How do these changes appear in HR?
- How has the HRM internationalized in relation to the internationalization of the overall business?

1.3 Definition of focal concepts

The most important concepts of this study are defined next. These are: small and medium sized enterprises, human resource management, internationalization and international human resource management.

The definition of *Small and Medium Sized Enterprises (SMEs)* of European Commission was chosen because this study is made in the EU region and the definition

is therefore valid. A firm is a small enterprise if it employs no more than 50 people and its annual turnover or annual balance sheet total is not more than 10 million euros. If the firm employs fewer than 10 people and its annual turnover or annual balance sheet total is under 2 million, the firm can be called a micro enterprise. Medium sized enterprise employs at the most 250 persons and its annual turnover does not exceed 50 million euros or its annual balance sheet total is no more than 43 million euros. (European Commission 2003.)

Human Resource Management (HRM) focuses on human action in organizations. HRM refers to those activities of an organization which utilize effectively the human resources of the organization. These main activities of HRM are selection, appraisal, reward and development. (Dowling, Festing and Engle 2008: 2; Fobrum, Tichy and Devanna 1984: 38).

Internationalization refers to when a firm expands its operations outside of its domestic boundaries. It is an evolutionary process where a firm increases its involvement in international operations. Internationalization can occur incrementally or quickly even in the early stages of the foundation of the company. (Johanson and Valhne 1977; Oviatt and McDougall 1994; Welch and Luostarinen 1988: 36).

In *International Human Resource Management (IHRM),* the complexity increases in comparison to human resource management. IHRM concentrates on how organizations manage their human resources in international contexts. Usually the number of the activities increases at the international level. (Dowling et al. 2008: 5; Harris, Brewster and Sparrow 2004: 6).

1.4 Structure of the thesis

The structure followed in this research has been constructed to complement its aims. The thesis consists of seven chapters. This introduction chapter presents the purpose and factors behind the study in general. After this introductory chapter, the theoretical setting of the thesis is covered. In the second chapter, it is explained what the human resource management of small and medium sized enterprises is like. Also two models for HRM of SMEs are presented. Thereafter it is explained how small business enterprises use the most typical HRM practices. In the second part of the theoretical

framework in chapter three, the internationalization process and IHRM of SMEs are described. The fourth chapter includes a short summary of the theoretical framework and a model of international human resource management of SMEs is presented at the end of the chapter.

The empirical part of this study is presented in chapters five and six. In chapter five the research methodology behind this research is discussed and chapter six contains the analysis of the research results. Finally, the last chapter seven presents the conclusions and suggestions for further research. The figure 1 below illustrates the structure of this thesis.
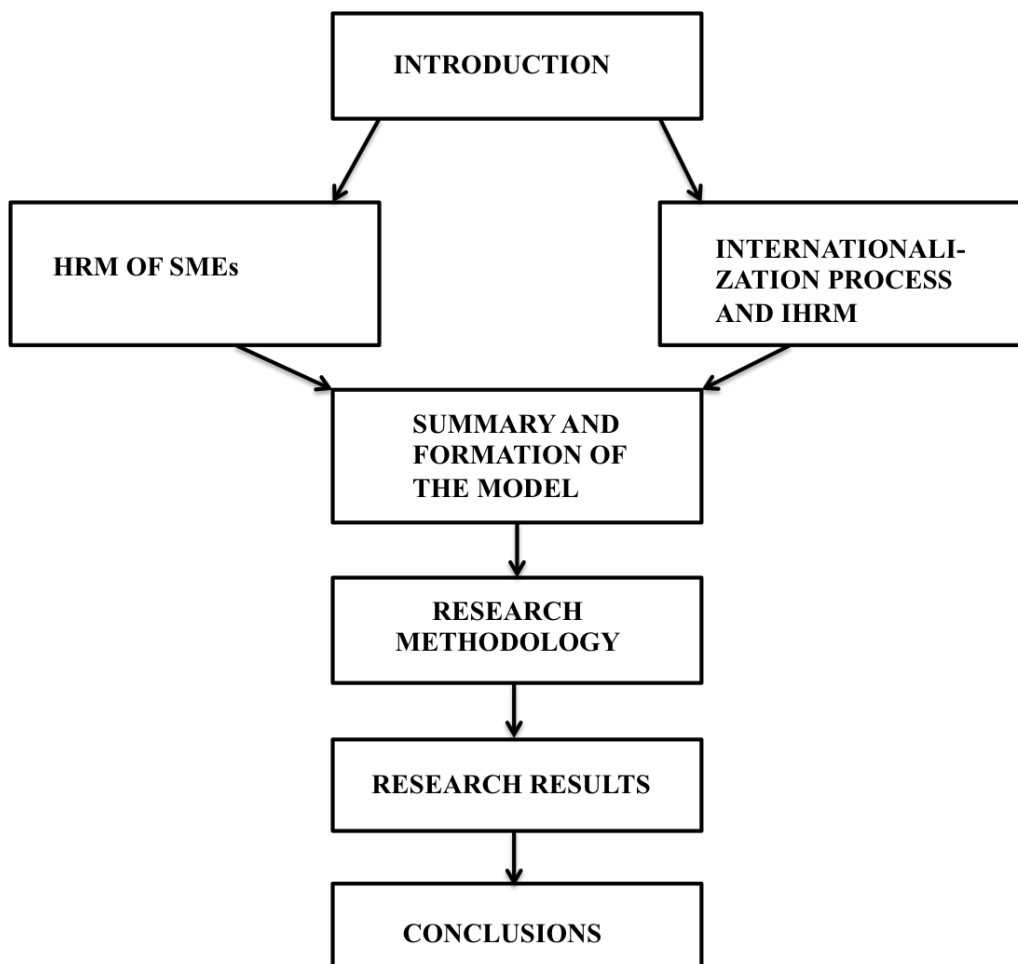

Figure 1. Sturcture of the study.

2. HUMAN RESOURCE MANAGEMENT OF SMEs

In the first part of the theoretical framework, a definition to the term human resource management is given which is followed by the characterization of the HRM of SMEs. Thereafter is explained how SMEs use different HR practices and what kinds of models for HRM of SMEs exist.

The term human resource management is very popular but there still is no specific definition for it (Beardwell and Claydon 2007: 5). Generally human resource management (HRM) focuses on human action in organizations. Beer, Spector, Lawrence and Walton (1984: 1) define human resource management as following: "it involves all management decisions and actions that affect the relationship between the organization and employees – its human resources." According to Fobrum et al. (1984: 38), the four generic HRM functions are: selection, appraisal, reward and development. Their definition is consistent with the assertion of Golhar and Deshpande (1997: 31), who state that recruiting, selecting, motivating and retaining employees are the main ideas in a good HRM program.

HRM in SMEs has been characterized according to two ideal types: 'small is beautiful' vs. 'bleak house' (e.g. Sisson 1993; Wilkinson 1999). By the first ideal type, 'small is beautiful', is meant that small firms are simple, facilitate harmonious working relationships and provide highly valued non-material benefits, while 'bleak house' means that employees in SMEs have to work in poor working conditions and they are not allowed to be involved with the running of the business (Wilkinson 1999: 207–208). The study of Saridakis et al. (2013: 452) supports partly the 'small is beautiful' perspective because it indicates that employees are more committed in small firms than in large firms. On the other hand HRM of SMEs is, according to Harney and Dundon (2006: 49), rather complex than bleak or beautiful. They state that HRM in SMEs is not simple but it is "a quilt composed of a distinct mix of policies and practices, in some cases uneven and contradictory, imbued with varying levels of formality and informality, each reflecting the unique context from which they emerged". (Harney et al. 2006: 69). The definition of Harney et al. (2006) is valid in this research. He states that SMEs are very heterogeneous: they use practices very differently with varying levels of informality and formality and each of the firms is operating in unique context.

The problem of HRM in SMEs is that especially in the small firms the owner of the firm often handles personnel functions alongside with his/her other duties and fulltime HR professionals are not employed, therefore sophisticated systems are not created. Usually SMEs do not even have an HR department. It is problematic because the quality of HR decisions suffers when the person in charge does not have any training or expertise in HRM. (Hornsby and Kuratko 1990: 9; Hornsby and Kuratko 2003: 74; Klaas, McClendon, and Gainey 2000: 107). Many studies also show that HR practices in small firms are normally informal (Hornsby et al. 2003; Kotey and Slade 2005; McEvoy 1984; Nguyen and Bryant 2004). This might come from the lack of professionalized knowledge (Marlow, Taylor and Thompson 2010: 956). The informality means that the applied practices are not written down, they cannot be guaranteed to take place and they are not regularly used (Barrett 2007b: 688). The study of Cassel et al. (2002: 689) also indicates that HR practices are viewed as ad hoc in SMEs. A couple of studies (Barret et al. 2007a; Storey, Saridakis, Sen-Gupta, Edwards and Blackburn 2010: 318) have recently proved that when firms start to grow, they use more likely formal HR practices. Formality means naturally the opposite of informality (De Kok and Uhlaner 2001). Marlow et al. (2010: 964) point out that increasing formality is obvious, but the change requires that both employees and managers accept the redistribution of authority. When the workforce is used to flexibility rather than bureaucracy then there is a huge challenge to change their attitude towards formality (Storey et al. 2010: 321).

There are several reasons why SMEs do not have any formalized practices. It can be stated that the resource poverty and the liability of smallness have an effect on the level of formality. Because of the higher costs and longer establishment times of formal practices, small firms rather apply informal practices which do not require as much managerial resources and expertise. (Chandler and McEvoy 2000; Heneman and Berkeley 1999: 53; Welsh et al. 1981: 18). Saru (2009: 82) suggests that the investments made in HR do not need to be extremely costly, but companies can compensate informal practices by making investments in their work environment. Actually informality has both advantages and disadvantages. Informality allows firms to be more flexible and to adapt to environmental changes which is advantageous for the companies. Because of informality, firms are usually less specified and informality permits employees to have a wide scale of duties in comparison to larger firms. Typically, there are no specialists in smaller firms. This means that HR managers need to consider the competencies of employees when they are recruiting people because multitalented people are needed rather than employees who are specialists in one field.

(Hill and Stewart 1999: 108). Informality has also some disadvantages, namely it can lead to declining returns. In the long term convenient and easy-to-use practices do not deliver the best results. For instance, when the firm grows quickly, it needs to develop more strategic methods to recruit employees. The cheap word-of-mouth method might not work anymore when a crop of capable employees are needed. (Williamson 2000: 34).

2.1 Typical HRM practices in SMEs

It can be stated that SMEs are a heterogeneous group, they use HRM practices very differently and also the success of practices varies. Informality usually connects the different practices of firms. Several researches have implicated that SMEs do not have any formal HR strategy or, if they do, they use it only to small extent. (Cassel et al. 2002; Galabova and McKie 2013: 674; Harney et al. 2006; Kotey et al. 2005). However, it has been indicated that growing firms increase the documentation and standardization of HR processes. (Cassel et al. 2002: 685; Harney et al. 2006: 55). Generally the most typical HR practices are: recruitment and selection, appraisal, reward and development (Fobrum et al. 1984: 38). In addition to these typical practices, HR planning, well-being, health and safety of SMEs, which also are important HR practices nowadays, are introduced here.

Recruitment includes those practices and activities, the purpose of which is to identify and attract potential people (Barber 1998: 5). In HR planning personnel costs are anticipated, and the company takes care that they have the right amount of employees who have the specific know-how that is needed (Strömmer 1999: 233). In the process of selection, information is gathered in order to evaluate and to decide who could be a potential employee (Dowling et al. 2008: 5). According to Dessler (2008: 336), appraisal can be defined as follows: "setting work standards, assessing the employee's actual performance relative to those standards and providing feedback to the employee with the aim of motivating him or her to eliminate performance deficiencies or to continue to perform above par." Reward includes two kinds of payments, namely direct financial payments (e.g. wages, incentives or bonuses) and indirect financial payments (financial benefits like insurances or vacations). (Dessler 2008: 422). Human resource development activities and processes aim to impact organizational and individual learning. If employees are trained, they can perform their jobs better when they have the

skills they need. (Dessler 2008: 294; Stewart and McGoldrick 1996: 1). The basic idea of well-being, health and safety is to take care of the safety, welfare and health of employees. Legislation regulates the minimum requirements of health and safety at work places. (Otala and Ahonen 2003: 19, 25–26). Next, the ways how these practices are used in SMEs are explained according to different studies, and at the end the table 1 summarizes the main findings of SMEs' HRM practices.

Resourcing

Resourcing consists of recruitment, HR planning and selection. Recruitment and selection are the most used HRM practices in SMEs. Actually it is not surprising: also Saru (2009: 29) states that those procedures are most important for the survival of SMEs. Recruiting is however a huge challenge for small and medium sized firms (Williamson 2000: 27). HR planning refers to recruitment, and Behrends (2007: 65) states that HR planning in SMEs is clearly linked to the firm size because medium sized enterprises have more systematic plans than small sized firms. According to Golhar et al. (1997: 34), the most used selection instrument in SMEs is one-on-one interview, and one important selection criterion is that the employee fits in with company's values and is able to contribute the advantages of the firm (Behrends 2007: 67; Saru 2009: 82). According to the study of Forth, Hewley and Bryson (2006), experience, skills, motivation and references are also regarded as important selection factors in recruitment of SMEs.

Cassel et al. (2002: 685) noticed that it depends on several factors how small and medium sized enterprises recruit people. Especially the nature of the job is important. Word-of-mouth has been viewed to be an appropriate way to hire people in many of the jobs. In SMEs people trust employees who are, for example, relatives of current workers. Word-of-mouth is also useful, because it does not cost anything and the firm receives employees about whom it is possible to get some information before they start. (Cassel et al. 2002: 685; Harney et al. 2006: 60). Although word-of-mouth is a cheap way to recruit employees, it can also harm small firms which do not notice the larger pool of suitable employees. Other ways to recruit are, for instance, online job data-bases, use of job centers, local newspapers, employment of former employees and registers of interested applicants. (Behrends 2007: 66; Carroll et al. 1999: 248; Forth et al. 2006; Kotey 1999: 89). It has been noticed that when firms grow, they start to use more formal selection techniques in order to reduce errors. (Kotey et al. 2005: 18).

Appraisal

The data of the study of Cassel et al. (2002: 683, 686) revealed that formal appraisal systems are rarely used in SMEs, and the nature of appraisal is ad hoc, but still some form of appraisal is applied. In small firms, appraisal exists in a form of the owner of the firm constantly evaluating employees when seeing the employees working or talking with them. The operationalization and interpretation of an appraisal process differs among firms. Some firms think that appraisal is appropriate for every employee, whereas other enterprises think that it is pertinent only for managers. (Cassel et al 2002: 686). Appraisal is used more frequently when firms start to grow (Forth et al. 2006; Hornsby et al. 1990: 13) and usually three appraisal methods are utilized in SMEs. Firms use rating scales, narrative descriptions of employee performance and assessment of employees' ability to meet the targets of the organization. (Hornsby et al. 1990: 14; Hornsby et al. 2003: 83). It has been noted that employees at the operational level are evaluated more often than employees in the management positions (Kotey 1999: 93).

Reward

Kotey (1999: 100) states that reward policies are normally informal. The company's size and the type of industry affect the determination of wages and benefit packages. Usually small manufacturing firms are more willing to offer benefits than retail, wholesale or service firms. (Hornsby et al. 1990: 13). Because of the lack of resources, SMEs cannot offer competitive remuneration packages and therefore these firms might not be very attractive among best employees. (Kotey 1999: 99). According to the research of Hornsby et al. (2003: 82), SMEs use mostly commissions, bonuses and profit sharing as incentives. Incentive schemes are good especially for firms just starting their business because they cannot offer high salaries at first. (Golhar et al. 1997: 37). The benefits employees are usually offered are different kinds of insurances, vacations and pensions (Hornsby et al. 2003: 81).

Development

The importance of development has been recognized by businesses of all size. Also most of the SMEs are using some kind of training practices, but they are rarely formal and any systematic approach to development is usually not applied in the firms (Kotey et al. 2005: 19). Training is informal in SMEs and the reason for that might be that formal training sources are not available for small firms as they are for larger firms

(Banks 1987: 24–25). Informal training also fits with the overall strategic orientation of SMEs (informal and flexible). However, the formality increases when the firm expands. (Kotey and Folker 2007: 231). Usually the indicated president, CEO or owner is responsible for training decisions. Because small firms cannot normally compete with salaries, it is a good choice to concentrate on providing possibilities for personal development in order to keep the talents (Galabova et al. 2013: 672; Saru 2009: 79). In SMEs, training is typically organized mainly because of some perceived needs, and on-the-job training which takes place in the normal working situation is the predominant training method (Kotey et al. 2007: 231). Also development discussion is one of the frequently used methods for developing employees in Finnish SMEs (Salojärvi 2005: 47). According to the research of Hornsby et al. (2003: 82), coaching and different kinds of seminars are also popular training methods among SMEs. They also noticed that especially firms over 100 employees utilized computer aided instruction. Forth et al. state (2006) that employees in SMEs are mostly trained in following areas: health and safety, operation of new equipment, computing skills and communication skills. A problematic issue of training is that when employees are trained, they can leave the company which results in the company losing all the money it has put on training. (Banks 1987: 19, 21; Cassel et al. 2002: 684, 687; Hornsby et al. 2003:23; Kotey et al. 2005: 29).

Well-being, health and safety

Well-being, health and safety are nowadays important practices at workplaces because absenteeism and sickness have become a problem for many companies (Williams and Snow 2012). Poor health and safety conditions can be very costly for SMEs (European Agency for Health and Safety at Work 2009: 8). The study of Galabova et al. (2013: 668) indicates that employees are critical to performance of small and medium sized enterprises. Thus the importance of well-being, health and safety increases. In SMEs, the purpose of well-being is to balance work and personal life, to create a welcoming working atmosphere, to provide support for development and to get people to enjoy their work (Galabova et al. 2013: 671–672). Effective health and safety programs can also be very beneficial for small and medium sized companies. These can lead to, for instance, reducing sickness absenteeism, increasing individual productivity, lower insurance premiums or greater business continuity. (European Health and Safety at Work 2009: 11–12). Williams et al. (2012: 735–736) researched health promotion in SMEs and they noticed a problem because the health promotion was not linked to the overall business strategy of SMEs. Companies have also acknowledged that it is

important to appoint a certain person who is responsible of the health promotion, but often their health-promotion duties were fairly informal. Especially the lack of time and resources was problematic when promoting health in SMEs.

Table 1. Summary of typical HRM practices of SMEs.

HRM practice	Findings
Resourcing	- HR planning linked to firm size - Selection instrument: one-on-one interview - Selection criteria: experience and skills - Recruitment channels: word-of-mouth, job centers, local newspapers
Appraisal	- Rarely used - Ad hoc - Methods: e.g. rating scales, narrative descriptions
Reward	- Informal - Incentives: commissions, bonuses and profit sharing - Benefits: insurances, vacations and pensions
Development	- Informal - On-the-job training, development discussions, coaching, seminars and computer aided instruction
Well-being, health and safety	- Creating a welcoming working atmosphere, to balance work life and personal life - Effective programs beneficial for SMEs → cost reductions - Not linked to overall business strategy, informal - Appointing a person who is responsible of health and safety promotion

2.2 The models for HRM in SMEs

The ways how SMEs use HRM practices differ a lot depending on the organization. Cassel et al. (2002) have created a model which describes the key characteristics that have an effect on whether or not the SME applies an HR practice. The model is based on their survey which they conducted by interviewing 100 senior managers of SMEs in United Kingdom. According to their model, the application of an HR practice is based on a need rather than strategic planning, which means that SMEs apply more likely a so called pick-and-mix contingency approach. The application of a specific HR practice can be described as a decision process which is influenced, for example, by prior HR experiences, resource availability and managers' interest in HR. Finally, it can be mentioned that SMEs take rather a reactive approach to HRM than a proactive or a systematic one. (Cassel et al. 2002: 671, 685, 687). The figure 2 represents their model and next the figure is explained in detail.
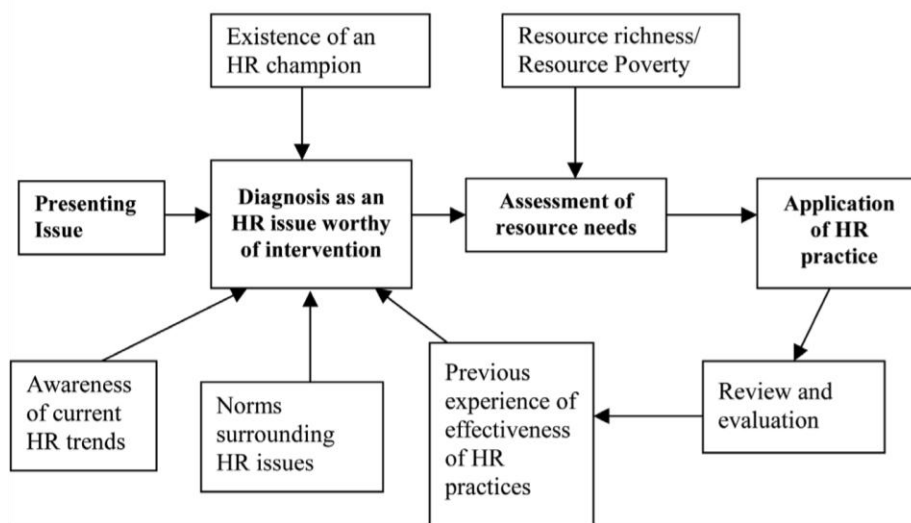
Figure 2. Factors that influence the decision of application of an HRM practice (Cassel et al. 2002).

The model begins from identifying a specific presenting issue. An issue might be, for example, a skill shortage, a decrease in output or productivity or an issue of individual performance. There are many factors affecting the decision on whether the issue requires an HR response or not. One of the influencing factors on the decision is, whether an HR professional, who has the responsibility and who sees HR practices as solutions to the problems, exists in the organization. As mentioned earlier, the problem

in SMEs is that usually there is no HR professional in the firm, but the owner or another manager takes care of these issues alongside with his/her other duties (Hornsby et al. 1990: 9; Hornsby et al. 2003: 74). If the HR professional is lacking, HR issues might be secondary for the organization. Other influencing factors are the norms surrounding HR issues whether companies view HR issues important. According to the research of Hess (1987: 31), human resource management was the second most important management activity, but it has been proved that in practice functions, like finance, production and marketing, are usually more important than human resource management (McEvoy 1984: 7). Previous experience of effectiveness of HRM practices is the third influencing factor. Affirmative previous experience affects naturally positively the decision to apply an HR practice. Of course, if the experience is not positive, it has negative effects on the application of an HR practice. The fourth influencing factor is the awareness of current HR trends. Naturally, if the practice is not known, usually it is not applied. (Cassel et al. 2002: 687–688).

In the next stage of the model, the need for resources is assessed. Resource richness/poverty of SMEs is strongly influenced by that. Some practices do not require so many resources, like recruitment by word-of-mouth, whereas other practices might be very costly, therefore the firm needs to consider whether there are necessary resources available. Because small and medium sized enterprises suffer from lack of resources, they mostly have to prefer cheaper and informal practices (Welsh et al. 1981: 18). As a conclusion could be said that an HR practice is applied if an issue is diagnosed with a need for an HR response and if it is commensurate with current business priorities. After the application, the HR practice is reviewed and evaluated which has an effect on the experience of HR practices of the firm. (Cassel et al. 2002: 687–688).

Harney and Dundon (2006) have presented an open systems model (figure 3). The main idea in their model is to consider every aspect that could affect HR decisions in SMEs. Their research was conducted in Ireland by using a case study approach, and they also interviewed 19 people and spent a lot of time at each target organization. Majority of the chosen firms were medium sized, but the research is still applicable to the smaller firms. In their model they have taken into account that small firms are embedded in their social environment. This means that the demands of external environment affect SMEs' internal HR decisions. According to them, SMEs are operating in a complex and plural environment and SMEs are a multitude of heterogeneous firms which have different ways of coping. The emergent HRM in small firms are affected by both internal factors (ownership, management style, trade union presence, size and

employees) and external factors (product/market structure, HR supply, industry sector, value chain, technology and legislation). (Harney et al. 2006: 51, 53–55).
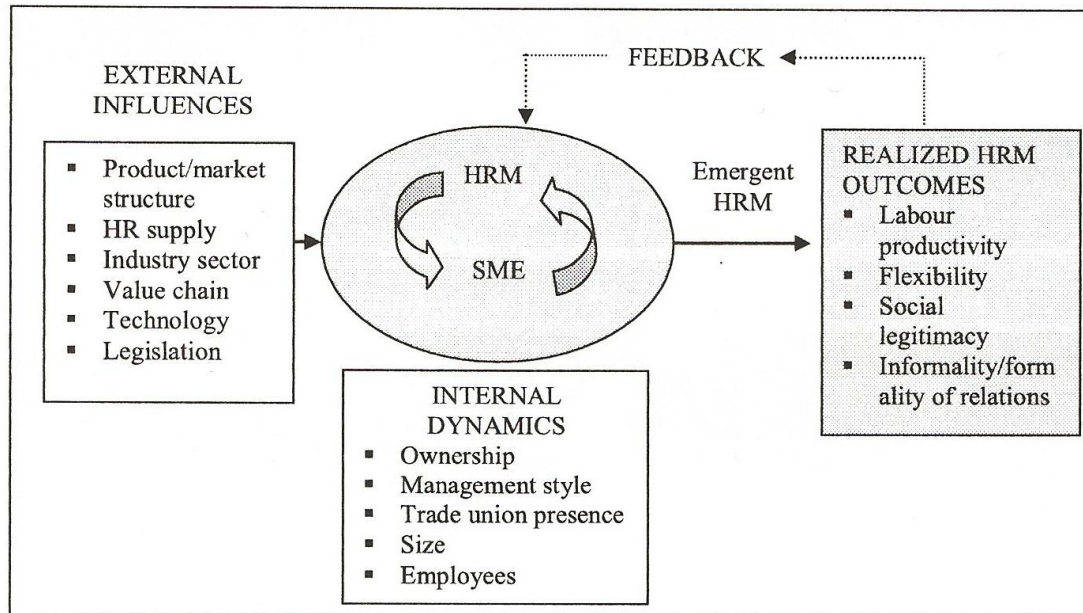
Figure 3. The open systems model (Harney and Dundon 2006: 54).

In the model of Harney et al. (2006), external factors play a bigger role than in the model of Cassel et al. (2002). In Cassel's model only the HR trends refer to external factors. In this study, a combination of these two models is utilized because the models complement each other: the model of Harney et al. (2006) considers the effect of the environmental and internal issues, whereas the model of Cassel et al. (2002) describes the internal decision process in detail. Actually Saru states in her study that the environment of SMEs affects a lot the way SMEs operate and their possibilities to invest in human resources (Saru 2009: 78). Consequently, it is important to take into account both the external and the internal environment.

3. INTERNATIONALIZATION PROCESS AND IHRM OF SMEs

Firstly, in this second part of the theoretical framework is briefly described how SMEs usually become international and what is the role of human resource management at different stages of the internationalization process. Secondly, the factors that influence international human resource management are explained and the international human resource management framework is presented. Thirdly, is described how small and medium sized enterprises use different international human resource practices.

3.1 Internationalization process of SMEs and its connection to HRM

Globalization and increased competition force companies to expand their operations abroad. Since 1970s, the internationalization of firms has been studied extensively which might be a reason why internationalization has been defined differently among the literature (Holmlund, Kock and Vanyushyn 2007: 459). Welch et al. (1988: 38, 45) describe internationalization as an evolutionary process. By evolution they do not only mean the depth of the operational modes, but also the diversity of modes. They also state that firms have a tendency to change the mode when their operations increase. Johanson et al. (1977: 24) define internationalization as a process where a firm increases its international operation step by step. "The process of increasing involvement in international operations" is a definition of Welch et al. (1988: 36). According to these definitions, the internationalizing firm increases its foreign operation. In contrast to Johanson et al. (1977) and Welch et al. (1988), Calof and Beamish (1995: 116) view internationalization as "the process of adapting firms' operations (strategy, structure, resource, etc.) to international environments". In this study the internationalization is understood according to the definition of Luostarinen: "the process of increasing involvement in international operations" because it describes straightforward the internationalization and in the definition is not mentioned whether the process occurs incrementally or not.

Nowadays international operations and international linkages between firms are general in every day business life (Elo 2005: 1). Also SMEs are encouraged to become international in today's globalizing world (Elinkeinoelämän keskusliitto 2011). Rutashobya and Jaensson (2004: 159) state that internationalization is more like an

economic imperative than an option. Usually firms have motives of two kinds when becoming international, namely proactive and reactive motives. According to Czinkota and Ronkainen (2007: 283–284), proactive motives work as incentives, for example, if a firm has a unique product that does not exist worldwide, the product can stimulate the firm to internationalize. Reactive motives are reasons that force the firm to respond to the changes in environment, such as competition.

There is a multitude of different models which describe internationalizing, foreign operations and foreign entry modes, but in this study only a few models are presented in order to understand how SMEs usually become international. Uppsala process model is one of the most frequently used stage model invented by Johanson and Wiedersheim-Paul (1975). Johanson et al. (1977: 2009) then later developed the original model. Learning by focusing on market knowledge and commitment are emphasized in the model. When firms learn more from specific markets, they become more committed and they invest more resources in the markets (Johanson et al. 1977: 26). According to the model, firms internationalize step by step to minimize risks and to overcome uncertainty. At the same time they learn and gain experiences. (Johanson et al. 1975: 306). Increased commitment proceeds in the following stages: 1) no regular export activities 2) export via independent representatives (agents) 3) sales subsidiary 4) production/manufacturing. (Johanson et al. 1975: 307). This model has received some criticism because Hedlund and Kverneland (1985: 46) have found out that firms do not always follow the stages but they can leapfrog the stages. Actually Johanson and Vahlne (2009: 1420) have corrected the model so that it fits better today's world and they admit that nowadays it is possible to leapfrog the stages. In their modified model they also emphasize more networks which are noticed to be very important when firms become international (Johanson et al. 2009: 1423).

It should be noticed that the internationalization cannot always be described incremental because some SMEs can also start their internationalization process soon after the foundation. It is possible that they do not even have any sales in their domestic market. Born global firms become international very quickly and they have a global vision already at inception (Gabrielsson, Kirpalani, Dimitratos, Solberg and Zucchella 2008: 386). According to Oviatt et al. (1994: 49), a born global can be defined as following: "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". Lower trade barriers, cheaper and faster transportation and communication, which decrease the risk of internationalization, have enabled quick internationalization. The

main goal of born global is to achieve growth through international sales. (Andersson, Gabrielsson and Wictor 2004: 23; Chetty and Campbell-Hunt 2004: 60, 61).

The Uppsala model was chosen to describe internationalization in this study because the model has been updated and it fits better today's globalizing world. The model also allows leapfrogging the stages, thus the internationalization can occur also quickly. Next is considered what then is the connection of HRM to the internationalization process. If the company becomes international through various stages, the role of HRM normally increases when the internationalization expands. Usually when the company has not had much international involvement, an HR department does not necessarily exist. (Welch and Welch 1997: 405). The problem is that firms have not recognized the significant role which people have during the early stages of internationalization and employee's impact on the development of the firm's international competencies.

According to Welch et al. (1997: 402), in the early phase of internationalization, HR issues are handled in an ad hoc manner and, for instance, marketing department might take care of those issues. In that case the operation mode is usually exporting by which firms normally start their internationalization according to the Uppsala model. Internationalization of the firm normally increases travelling which causes more administrative work for persons in charge of HR because they need, for instance, to take care of insurances, overseas daily allowances, travel expenses and arrangements. If the firm is using export agents, there is no significant need for employees on the international side. Later, when the firm receives knowledge from foreign markets, agents/distributors are often replaced, for example, with the establishment of sales subsidiary in the foreign country because the company often wants to control the issues by itself. Then the need to train staff for international issues increases. For some firms it is an easy step to change from sales subsidiary to foreign production. The company can implement the foreign production either through joint venture or by establishing its own facilities. In either way a separate international division which takes care of all the international activities is needed. At this point the role of HR is concentrated on expatriate management and on monitoring the subsidiary HR function. Welch et al. (1997: 408–409) state that usually companies do not realize the importance of HR issues until there is a critical mass of expatriates and then more formal HR policies are needed. The problem at this stage is that now the HR function is given more importance, even though the function might not have taken care of those issues before. Thus it is a hard task for them suddenly to take care of all the international HR activities. People have such a huge role in the internationalization process, and Welch et

al. (1997: 409) argue that HR issues should be considered much earlier because those issues are too critical to be ignored. (Dowling, Welch and Schuler 1999: 33–39; Welch et al. 1997: 402–409).

3.2 The influencing factors on international human resource management

Globalization creates pressure on HRM function because it needs to adjust to changing organizational needs. There is, for instance, a need to find employees who are interested in international assignments and who have the desired skills which are needed in the international organization (DGFP 2007). According to the study of Monks et al. (2001: 550), international human resource management (IHRM) is becoming increasingly important in internationalized SMEs because the management of international human resources can be seen as a key source of competitive advantage. When SMEs become international, firms need to consider several factors which might influence their overall business and international human resource management.

Usually the complexity increases when firms operate in different countries and employ people from different nationalities (Friedman 2007: 157; Dowling et al. 2008: 5). For instance, already the language must be different when operating abroad. It naturally creates challenges if people are not able to communicate with their mother tongue because misunderstandings are more possible. The geographical locations also challenge running of HR issues because due to the time differences employees are working at different times. Thus they might not be able to communicate via telephone, but they have to send only e-mails. This might also require employees to be more flexible and to work at the times when it is possible to contact their foreign colleagues at the same time.

The cultures of different countries can create challenges to the international human resource management because cultures vary significantly from each other: therefore the knowledge of different cultures should be acquired. It should be realized that if some practices work in the home country, they might not work in another country because of cultural differences. (Briscoe and Schuler 2004: 113–114). Geert Hofstede has researched how values at the workplace are influenced by culture. He found four dimensions which describe the values that distinguish countries from each other: power distance, individualism vs. collectivism, masculinity vs. femininity and uncertainty

avoidance. Michael Bond added one dimension, long-term orientation, later in 1991. Power distance describes the degree to which the members with less power accept that power is not distributed equally. Individualism means that person comes first whereas collectivism is the belief that group comes before the individual. Masculinity refers to achievement, assertiveness and material reward for success, while femininity refers to cooperation, modesty and caring for the weak. Uncertainty dimension describes the feelings how people regard uncertain and ambiguous situations. The fifth dimension is called long-term orientation. Countries with long-term orientation believe that truth depends on the situation, whereas countries with short-term orientation want to establish the absolute truth. Short-term orientation societies try to achieve quick results and they are not so apt to save money, whereas long-term orientation societies are the opposite of that. (Hofstede a and b).

HR managers can use these dimensions as assistance when they are planning, for instance, different IHRM practices. An example of that could be the motivation of people because they can be motivated in different ways in various countries. Usually people from countries with high masculinity appreciate more material possessions, whereas people from feminine countries might appreciate more for example free time. According to the study of Lowe, Milliam, De Cieri and Dowling (2002: 60–61), countries with high long-term orientation wanted to have rather a long-term perspective than a short-term perspective on pay, whereas countries with short-term orientation wanted their pay to be based on short-term results. This example also indicates that employees cannot be rewarded in a same way in every culture, thus cultural issues in international human resource management are essential. It should be still remembered that every person is an individual who experiences things differently despite the culture.

Legislations of the different countries can also affect IHRM. Employment law is one of the most important areas of IHRM, and it also complicates the HR process because HR professionals in international firms need to take into account different laws of several countries. There is also a huge risk of making mistakes because usually the laws differ a lot from domestic laws. Several legal systems exist in the world which can be divided into four different groups: common law, civil law, religious law and bureaucratic law. Common law is developed through history and it is based on cumulative decisions of judges on individual cases thus it might be different in each common law country. Civil law is based on different kinds of listed rules which indicate what is allowed and what is not. Religious law is affected by the rules of faith and practice of a particular religion. According to bureaucratic law, the bureaucrats in the country determine the law, even
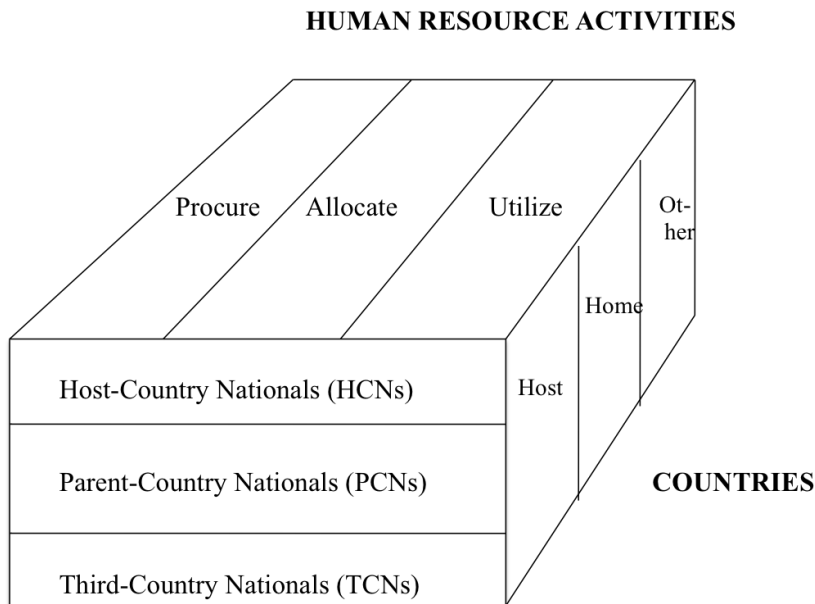
though formal laws exist. Of course there are some international and regional organizations which try to influence the working conditions of employees or to standardize legislations of different countries. On the international level, for instance, the International Labor Organization (ILO) tries to improve the working conditions, and on the regional level, for example, in Europe European Union naturally influences the conditions. (Briscoe et al 2004: 137–138, 140–144; Griffin and Pustay 2007: 59–61).

Countries' political systems also influence international business and thus human resource management. There are two types of political systems which direct, control and promote the business of the countries. These are called democracy and totalitarianism. In purely democratic countries people have the supreme power. Of course pure democracy, where people can rule and vote on everything, does not work in large societies. Also the societies where people can elect their representatives to rule are democratic. Usually democratic countries are stable business environments. In totalitarian/authoritarian societies, the authority, which normally is one person or a small group, has the power. Totalitarianism can also be divided in several subgroups. The countries' political systems influence their institutions (like hospitals and schools) and safety; thus it is important for HR department to consider the political systems, for example, in order to know whether it is safe to send expatriates abroad. (Aswathappa 2010: 124–125, 128–131).

3.3 The model of international human resource management

Morgan (1986: 44) has developed a model of international human resource management (figure 4). In his model he describes three dimensions of IHRM. The first dimension includes human resource activities (procure, allocate, utilize). The second dimension presents the categories of nationals or countries (host, home and other) which are involved, and the third one presents the three categories of possible employees (host-country nationals, parent-country nationals and third-country nationals). In order to clarify the model, a Finnish firm which operates in several countries is used as an example: Host-country nationals (HCNs) are German employees hired to work in Germany. Parent-country nationals (PNCs) are the workers from the Finnish company, who were sent to an international assignment. Third-country nationals (TCNs) are employees from other countries, e.g. from Sweden, who were sent to work to the firm's

operations to Italy. This example indicates how the complexity of the operations increases when a firm starts international operations.

HUMAN RESOURCE ACTIVITIES

Procure / Allocate / Utilize / Ot- her

Home

Host-Country Nationals (HCNs)

Host

Parent-Country Nationals (PCNs)

COUNTRIES

Third-Country Nationals (TCNs)

TYPE OF EMPLOYEES

Figure 4. Morgan's model of IHRM (Morgan 1986).

Organizations have three options when they internationalize their HRM: they can apply adaptive, exportive or integrative orientation. If the firm uses adaptive orientation, each subsidiary develops its own HRM system and the local environment is taken into account, but there is a low consistency with the rest of the company. Differentiation is emphasized in this orientation. The adaptive orientation refers to Perlmutter's (1969) polycentric approach to MNC management which is clarified later in the chapter 3.4, but the adaptive orientation is broader because it refers to all HR practices, not just to staffing. In the exportive orientation every subsidiary applies its parent firm's HRM system, and so the HRM system is replicated in overseas subsidiaries. This orientation is consistent with an ethnocentric approach to MNC management (Perlmutter 1969). The integrative orientation means that best HRM approaches are integrated and a worldwide system is created. This means that the transfers of HRM can move in any direction, from the parent to the subsidiary, from the subsidiary to the parent company or from the subsidiary to the subsidiary. The aim is to reach a global integration, where some local differentiation is allowed. This orientation is consistent with a geocentric

approach (Perlmutter 1969), but the orientation is broader than the geocentric approach. By using integrative orientation it is possible to create high internal consistency. Usually the firm's international strategy affects the choice of the orientation. (Taylor, Beechler and Napier 1996: 966–967).

3.4 IHRM practices of SMEs

Due to the scarce of the studies of IHRM practices in SMEs, this part is concentrating mainly on the results of the study of Monks et al. (2001). The research of Monks et al. (2001) concerns the human resource management in internationalizing medium sized firms which employ more than 100 employees and have been operating more than three years abroad. It has to be noted that the total staff numbers of the studied firms are bigger for medium sized enterprises in comparison to how the European Commission defines a medium sized enterprise. The study of Monks et al. (2001) was concentrating only on resourcing, management of expatriates, repatriation, management development and reward. (Monks et. al 2001: 539). A few other studies which were found, and the existing literature have been utilized to complete these results. Next, the different IHRM practices are explained, and at the end the table 2 summarizes the main findings.

Formality and the approach to internationalization

The study of Monks et al. (2001) indicated that firms used very differently formal and informal IHRM policies, like recruitment, selection, pre-departure development, repatriation and compensation of expatriates. The firms which have become international after 1980 took a proactive approach to internationalization and to HRM, and they were more likely to use formal practices. Also according to Svard and Luostarinen (1982), it would be ideal when IHRM policies would precede international operations. However, previous research suggests that usually in the early phase of internationalization HRM has little or no formality whatsoever, but when the international activities expand, the company needs to develop more formal HR policies (Welch et al. 1997: 402). Monks et al. (2001: 545) have found some reasons for the application of proactive approach to the internationalization and to the HRM, namely the Irish firms might have had some competitive pressures to internationalize quickly because they started the internationalization quite late. Another reason for using proactive approach might be that after 1980s the human resource assets of firms

received more attention in the researches and therefore the firms thought that investing in human assets could be their competitive advantage. The internationalization process of these Irish firms was not traditional because they leapfrogged the stages and internationalized quite quickly.

Resourcing

Perlmutter (1969) has identified three different approaches towards building a multinational enterprise: ethnocentric, polycentric and geocentric. The regiocentric approach was added later (Heenan and Perlmutter 1979). These approaches affect the staffing policies of the firm. According to the ethnocentric approach, parent-country nationals fill all the key positions. This approach is common especially for firms which have recently started internationalization. Usually the ethnocentric approach is applied because of the lack of necessary skills of the host-country nationals. Also there might be a need to maintain communication, coordination and control, and PCNs secure that. According to the polycentric approach, HCNs are recruited to manage operations in subsidiaries in their own country and PCNs fill positions of corporate headquarter. The assumption behind the approach is that the parent firm might assume that host-country cultures are different and difficult to understand and therefore it is better to hire local people. The third approach is called geocentric approach, in which best employees are recruited for key jobs in any part of the organization. Nationality does not matter because the competence of the employee is the key issue. The main goal is to achieve a worldwide approach in both headquarters and subsidiaries. The regiocentric approach, which was added later, is the fourth approach of international staffing. The basic idea in this approach is to utilize a wider pool of employees as in geocentric approach, but in a limited way. Employees have a chance to move to work abroad, but these movements are done in specific geographical regions which are defined by the firm. (Dowling et al. 1999: 70–75; Heenan et al. 1979: 17–21; Perlmutter 1969: 11–13).

The study of Monks et al. (2001) indicated that firms think differently about centralization/decentralization decisions: some of the firms viewed autonomy as a good thing, whereas others thought that too much autonomy is not good for the organization as a whole. According to their study (2001: 540), SMEs used ethnocentric staffing approach in the very early stages of internationalization. Reasons for application of ethnocentric approach were that in some countries managers did not have good enough skills or some specific knowledge which was required. Also the need for training of local staff resulted in the firms employing PCNs. Generally, all the firms wanted to hire

PCNs only for specific purposes and limited time spans. This means that localization was the goal of the firms in order to HCNs being able to run the business, thus the firms thought that HCNs should be developed for those kinds of positions. (Monks et al. 2001: 540–541). Harris et al. (2001: 97) also state that the importance of local staff has been noticed because these employees are much cheaper to employ than expatriates. The study of Welch (1994: 151) indicates that the stage of internationalization has an effect on the staffing approach. Welch et al. (1997: 402) state that when international activities increase, also the formality of HRM practices increases. Based on the findings, I created the figure 5, which demonstrates the formality of HRM practices and the staffing approach at the different stage of internationalization process.
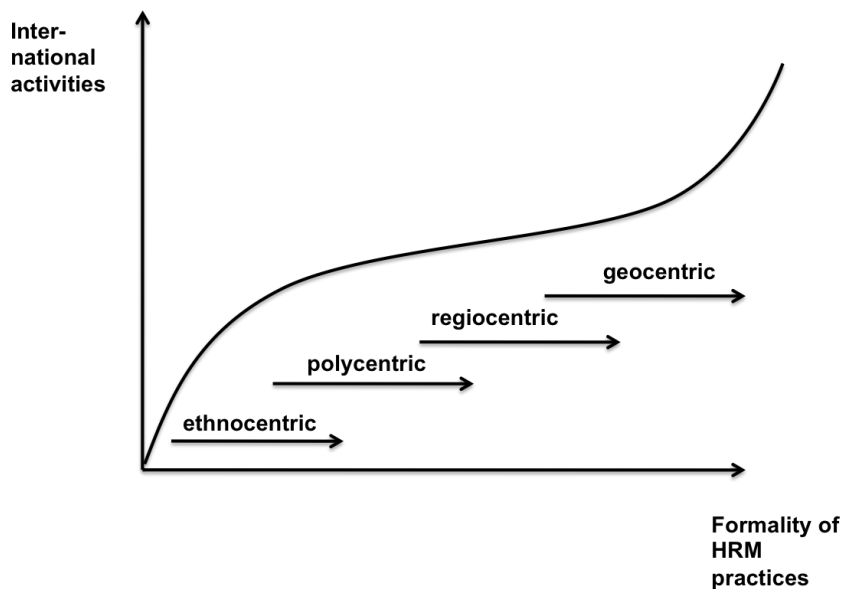
Figure 5. The connection of formality and staffing approach to the internationalization process.

Isidor, Schwens and Kabst (2011: 2167, 2178–2179) have researched whether it is possible to leapfrog the stages in international staffing like it is in internationalization when firms internationalize quickly. They noticed that the experience of the management did not affect international staffing approach, but for instance the networks of the firms allowed them to leapfrog the international staffing stages.

Recruitment is not at all easier at the international level. It has been stated that small firms may have some problems to recruit international managers in comparison to large firms which have a strong international orientation. (Cardon and Stevens 2004).

Kühlmann (2000: 362) has analyzed the employer image of SMEs. According to him, employees have the belief that SMEs do not have strong international operations and therefore they are not so interested to apply to these firms. This naturally affects the international success of SMEs if they do not get qualified international managers. Kühlmann (2000: 363) suggests visible HR marketing activities; in order SMEs could be more attractive to employees who are interested in international operations.

Management of expatriates

The studied firms had specific approaches to managing expatriates. Expatriates were normally employed for specific purposes and limited time spans. They were senior managers who were used, for instance, to provide some special skills, such as technical skills, or to spread the company culture. Four of the firms used a centralized approach to manage expatriates, which means that the head office manages the expatriates. Two of the firms had a decentralized approach, which is why in these firms expatriates did not have much contact with the head office. Rest of the companies used a mixture of strategies, which means that expatriates needed to inform the head office about some issues, but the overseas unit was in charge of, for example, day-to-day management. It was also noticed that previous experience of overseas assignment of the expatriate and the nature of the assignment affected the extent of control. (Monks et al. 2001: 541– 542). In the study of Harris et al. (2001: 98), the researchers noticed that expatriates were used to develop a consistent marketing approach, but still there was no strategy to manage expatriates, but the expatriates had been left to operate independently.

In the recruitment of expatriates, the firm needs to decide whether it recruits internally or externally, and which should be the criteria for selecting employees for international assignment. Usually the firms preferred to recruit internally, although some of the firms recruited externally for exceptional circumstances. The advantages of using internal employees are: the knowledge of the individual and his/her possibility for career development. The most important selection criteria for international assignment are: domestic experience, general management and technical skills. For younger graduates foreign language skills and development potential are critical selection criteria. The ability to operate independently and to develop cross-cultural leadership skills are also important selection factors for assignments which were aimed more to senior expatriates. Usually the selected candidates for international assignments were well known in the companies because of the smaller size of the organization and the track record was the main factor influencing the selection. (Monks et al. 2001: 542).

According to the literature, person's technical ability, intercultural sensitivity, flexibility and the desire for a foreign assignment were important selection criteria. Also the country/cultural requirements, language skills and the requirements of the multinational enterprise should influence the selection. (Briscoe et al. 2004: 239–240; Dowling et al. 2008: 119; Niermeyer 2000: 225–336). Thus the Irish firms have partly similar criteria for selection.

Companies allotted time to an expatriate assignment very differently. The reason for that is that the type of assignments and recruited employees varied among the companies. Some of the companies assumed that it was easy to get staff to international assignments, but the problem was to retain them in the company after the assignment. Other companies assumed that it was hard to find interested employees because of several reasons: for instance, employees believed that international experience is not appreciated enough, assignments would damage their career or because of family reasons. Usually companies that had several expatriates had the most comprehensive training package for them. Harris et al. (2001: 96) however noticed in their study that there was no career planning made for expatriates. The level of communication between the head office and expatriate influences the success of international assignment because the major difficulty for expatriates is the feeling of isolation. It was noticed that the level of communication occurred differently because some companies communicated daily with their expatriates, whereas others did not have such a planned communication system. Telephone, fax or e-mail were the communication channels between the host country and the home country. The expatriates still experienced culture shock, isolation and family adjustment, even though the communication was regular. (Monks et al. 2001: 533–544).

Repatriation

Repatriation means the process when the expatriate comes back to the home country from the international assignment. HR managers should also pay attention to repatriation because it is sometimes recognized to be a big problem for international firms. Actually organizations have noticed the importance of careful repatriation managing in order to prevent the reverse culture shock. (Black 1992; Dowling et al. 1999: 204).

According to the study, the Irish firms did not regard repatriation as a problem. In order to ease the repatriation, the firms have reduced the duration of the assignment because

they have noticed that after a long assignment the repatriation process is more difficult. The firms also considered the return of expatriates in the early phase and they paid more attention to their career planning. It was noticed that a specific business unit or a particular manager took care of expatriates during and after the assignment. That is also a factor which facilitates repatriation. However, these repatriation policies were not formal, instead one-to-one responsibility was developed. (Monks et al. 2001: 544–545). Harris et al. (2001) noticed in their study that repatriation caused problems because there was no readjustment program. Thus the success of the expatriation is dependent on the fact how the repatriation is planned.

Management development

Monks et al. (2001) found out that firms have recognized the importance of the management development, but the implementation of development programs varied a lot among the firms. Importance of development was also noticed by Harris et al. (2001: 94). The development was directed particularly for top and senior management. The firms used both internal and external management development, for example, one of the firms was utilizing leading European and US business schools. In one of the companies they had a very broad development program for 17 managers which included expatriates, host country and home country managers. The aim of the program was to develop an internal resource which would be consistent with their future international needs. In general, all the firms wanted to develop more general than international management skills. Also according to the study of Harris et al. (2001: 93), training and development was more focused on business needs. The Irish firms recognized a need to develop the next generation of top managers so that they could run international business. That was actually the key international HR issue which these companies were facing. That is why some of the companies noticed the training of graduates as an opportunity. Monks et al. (2001) recognized that the use of short-term assignments had increased because it was regarded to be a way of reducing the need of expatriates/repatriation problems. Short-term assignments were also used as a way to develop managers. (Monks et al. 2001: 546–547).

Reward

The reward policy should attract and retain staff and it should be competitive at the international level. The international rewarding is much more complicated than domestic one because the HR department needs to take into account three categories of

employees: PCNs, TCNs and HCNs. As mentioned before, the culture has an influence on how people from different cultures can be motivated and rewarded. (Dowling et al. 2008: 162). According to the Irish study, the problem of researching remuneration was that it was hard to access the necessary information on rewarding because of its sensitive nature. It was noticed that remuneration varies a lot in different companies. Two of the studied companies left the remuneration for HR department whereas others were using HR department as a consultative help. The problem of the remuneration was linked to it not being consistent in the firm and because of this inconsistency some of the employees might have been ignored. Four of the studied firms had decentralized policies to remuneration. Some of the firms had the same policies for all employees, but with different allowances. The types of the remuneration which were used were, for example, performance related pay, bonus schemes, shares and profit sharing. It was noticed that there was no consistent pattern for bonus schemes. For instance, in some firms bonuses were given only to international employees, whereas some firms had both domestic and international bonus schemes. (Monks et al. 2001: 547–548).

Companies can choose from two main options of international compensation approaches when they develop compensation packages for expatriates. These are called the going rate approach which is based on local market rates, and the balance sheet approach that is based on home country conditions. (Dowling 2008: 165–167). According to the study of Monks et al. (2001: 547), devised packages were organized for expatriates, in which all the sacrifices and inconveniences which international assignment might involve were considered. The aim was to ensure that expatriates were financially not in a disadvantaged position because of the assignment. (Monks et al. 2001: 547–548). This means that also these studied Irish firms were applying the balance sheet approach, like most of the larger firms (Dowling 2008: 167; Welch 1994: 147). Also according to von Preen and Blang (2000: 388), most of the companies usually apply the reward approach that is based on the home country conditions.

Appraisal

Performance appraisal's purposes and practices vary substantially between different countries and it is one of the most challenging HRM practice for international companies. (Dowling et al. 1999: 118; Milliam, Nason, Zhu and De Cieri 2002: 87). Even though appraisal was not actually researched in the study of Monks et al. (2001), it was recognized to be problematic in the studied Irish firms. In the companies, managers were wondering how it is possible to assess someone who is abroad, and whether it is

right, for instance, to raise his/her salary only because of an international assignment, so that it is possible to retain the loyalty and commitment of people in the home country. (Monks et al. 2001: 545).

Table 2. Summary of the findings of typical IHRM practices.

IHRM practice	Findings
Resourcing	• The stage of internationalization influences staffing approach • In the early phase: ethnocentric • Mediocre employer image among employees
Management of expatriates	• Different strategies or even no strategy among firms • Expatriates used for specific purposes • Recruitment: mostly internal • Required skills: e.g. experience, cross-cultural leadership skills, person's track record • Level of communication varied • Communication channels: telephone/e-mail/fax
Repatriation	• Importance of readjustment program to the success of the assignment • No formal policies
Management development	• Internal and external • Invocation of business schools, use of short-term assignments • The need to develop graduates • Training focused on business needs
Reward	• Lack of information • Inconsistency • Performance related pay, bonus schemes, profit sharing • Balance sheet approach
Appraisal	• Was not researched, but it was noticed to be problematic

In the study of Monks et al. (2001), which was used to describe IHRM practices, the researchers focused only on specific practices (Monks et al. 2001: 539). For example, appraisal was completely ignored and therefore the research leaves some gaps in the field of IHRM practices of SMEs. The researchers also thought that it was hard to gain information about reward issues, thus it might have influenced the results. It can be noticed that informality also prevails in international human resource management as in domestic human resource management. Because of the limited resources of SMEs, some companies have also considered outsourcing of HR activities. This might be a good strategy for a small firm, but companies should pay attention which activities they outsource because it would be a risky choice to outsource strategically important activities. (Festing 2007: 13). Kühlmann (2000: 369–370) states that SMEs can also arrange their international human resource management cooperatively. This is not actually new among SMEs, however the concentration of the cooperation has been done in other fields than in HRM. Kühlmann suggests that this can also be done in international human resource management. This kind of arrangement can attract SMEs because of the limited resources, but there are also risks. It can, for instance, lead to reciprocal dependency or it might be that the other party gets some confidential information about the other company, thus it is advisable that a third party (advisor) steers the cooperation when it is built.

4. SUMMARY AND THE FORMATION OF THE MODEL

The concentration of the researches in the field of HRM has been mainly focused on large organizations, and small and medium sized enterprises have not received as much attention. Especially in the field of IHRM of SMEs only a couple of studies were found. This indicates the critical need of researches in the field of IHRM of SMEs. The purpose of this chapter is to summarize the main theoretical issues and to formulate a model of human resource management of internationalizing small and medium sized enterprises which is based on the existing literature and studies.

4.1 Summary

In the first part of the theoretical framework it was explained how the human resource management of SMEs is characterized and how they use HRM practices. Also two models of HRM of SMEs were introduced. It can be stated that according to the findings, SMEs are strongly heterogeneous and they use practices very differently with varying levels of informality and formality. HRM of SMEs can be characterized as complex, informal and ad hoc (Cassel et al. 2002: 689; Harney et al. 2006: 49; Hornsby et al. 2003). There usually is no HR department in SMEs and the owner takes care of HR issues. (Hornsby et al. 1990: 9; Hornsby et al. 2003: 74; Klaas et al. 2000: 107).

In the second part of the theoretical framework it was explained what the internationalization process is like and how the IHRM of SMEs can be characterized. When SMEs become international, the number of IHRM practices increases because HR department, for example, needs to take care of expatriates. The number of nationalities rises too, thus HR professionals need to have a broader perspective on HRM because the workforce consists of PCNs, HCNs and perhaps of TCNs. Usually in the early phase of internationalization firms use expatriates, but later when international activities increase, there might be a need to change the staffing approach. It is stated that the formality normally increases when the firm's operations expand. However, the study of Monks et al. (2001) indicated that informality prevails still in international human resource management of SMEs as in domestic human resource management. In the second part a few models were also introduced: Morgan's (1986) model of international

human resource management and the findings of Monks et al. (2001) can also be viewed as some kind of model.

4.2 Formation of the model of IHRM of SMEs

The figure 6 has been formulated based on the models of Cassel et al. (2002: 687) and Harney et al. (2006: 54) and the theoretical framework. The created model below illustrates the IHRM of SMEs. On the left side of the figure are listed the concepts that describe human resource management of SMEs. In the middle part of the model are described external and internal factors which influence the IHRM of SMEs. On the right side of the figure is the box of IHRM of SMEs. Next the figure is explained more in detail.
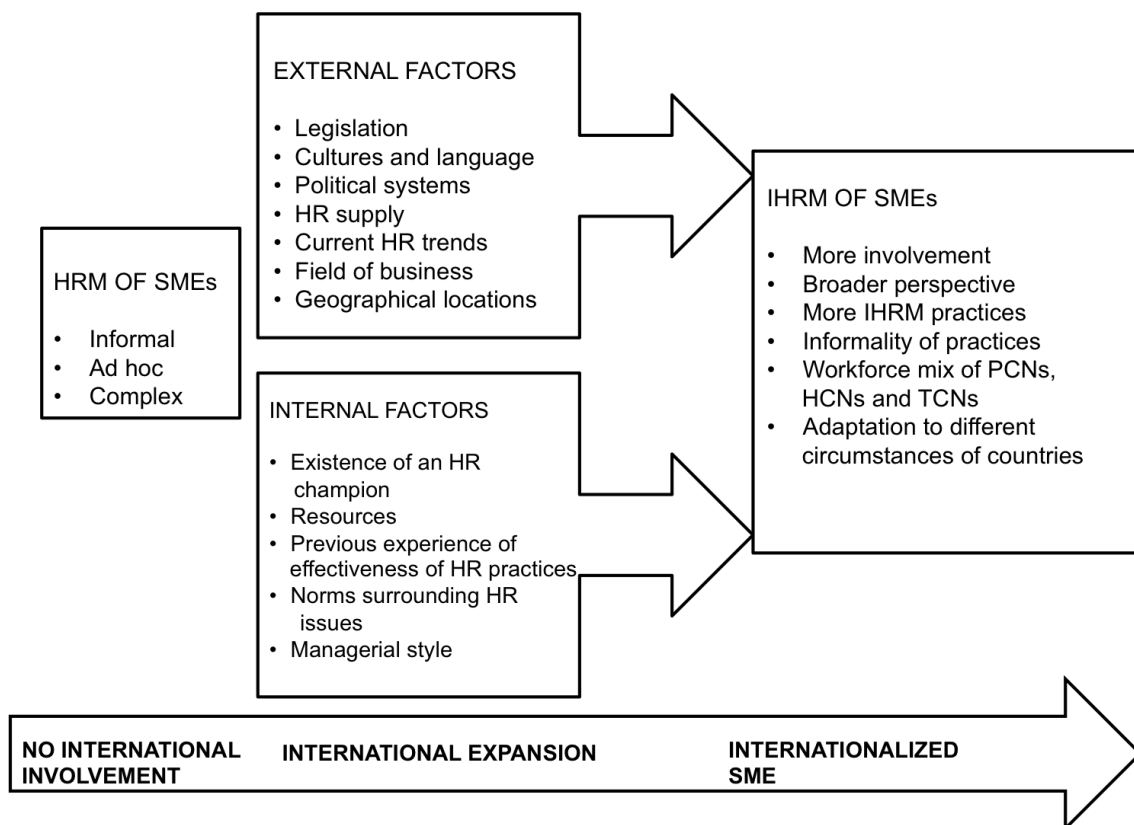

Figure 6. The model of IHRM of SMEs according to the existing literature and studies.

The box on the left side of the figure describes the situation of HRM of SMEs when the firm has no international involvement. As it was stated already in the theoretical part these concepts informal, ad hoc and complex characterize the HRM of SMEs. When the internationalization process begins, companies need to consider both internal and external factors that influence their human resource management. Internal influence factors are the existence of an HR champion, resources, previous experience, norms surrounding HR issues and managerial style (Cassel et al. 2002: 687; Harney et al. 2006: 54). If an HR champion exists in the company, it might affect positively the international human resource management. Usually small and medium sized enterprises have limited resources in comparison to large companies, which might be problematic for the IHRM. Previous positive experience can contribute to SMEs applying of a specific IHRM practice, whereas if HR issues are not appreciated in the firm, it can lead to the rejection of an IHRM practice. Managerial style also affects IHRM because it might have an influence on the use of different IHRM practices. For instance, if the managerial style is very traditional, then the reward systems might also be traditional and new rewarding methods are not applied.

HR managers also need to consider external factors. They need to know several countries' legislations, and it is good to have an understanding of what kinds of political systems exist in the countries in order to avoid mistakes. Consideration of cultural issues is important when planning different IHRM practices because it is not possible to use same kinds of practices in every country because of cultural differences. For example, as the five dimensions of Hofstede indicate, people from different countries can be motivated in different ways. The language also affects because all the documents and regulations need to be produced in English. Geographical location determines time differences that challenge the running of HR issues. HR managers need to consider the HR supply too. This means that they have to consider where they can acquire available labor and they need to take into account different nationalities because the workforce mix of PCNs, HCNs and TCNs varies. Also, current HR trends and field of business can influence HRM of internationalized SMEs.

On the right side of the figure the IHRM of SMEs is described. In IHRM, HR department has to be more involved in employees' personal lives when they are selecting international assignees because they need to arrange, for instance, their housing arrangements and health care in the foreign country. They also need to have a broader perspective on HRM because the workforce consists of different nationalities. Obviously, the number of IHRM practices increases but still the informality prevails in

most of the practices. Because of the international environment, IHRM of companies has to adapt to different circumstances of countries. This model gives an overview on how IHRM of SMEs is characterized in literature and studies. The created model is used as a base for the empirical part and it is modified based on the empirical data. In the next chapter the research methodology of this study is described.

5. RESEARCH METHODOLOGY

The purpose of this research is to study empirically the international human resource management of SMEs. This chapter discusses the research methodology behind the empirical research. In the previous chapter a model of IHRM of SMEs (figure 6) was already formulated which is used as a base for the empirical study. In this chapter research philosophy and approach, research method and strategy, data collection method, data procurement and analysis are introduced. The figure 7 below describes the methodological choices of this study (Saunders, Lewis and Thornhill 2009: 138). The research philosophy is chosen first, after that the research approach, thereafter the research method and finally the data collection and analysis methods. Next the different concepts below in the figure are explained.
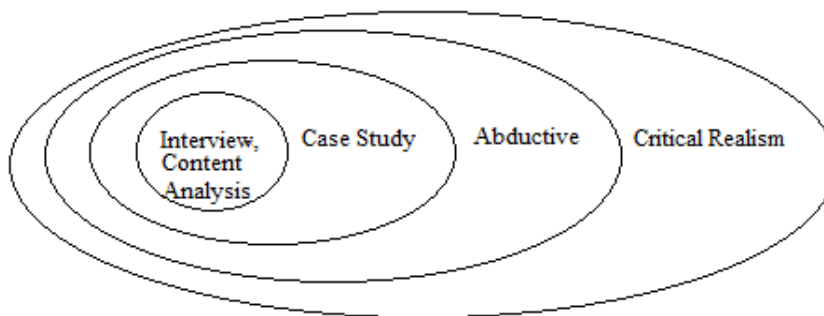
Figure 7. Methodological choices.

5.1 Research philosophy and approach

The research philosophy reveals the researcher's way to view the world. First, the philosophical views are introduced in general here in order to get in to the philosophical background of this study. The philosophical views are divided into teleology, logic, ontology and epistemology. (Eriksson and Kovalainen 2008: 10; Hirsjärvi, Remes and Sajavaara 2007: 125). The basic idea in teleology is to produce questions from the purpose, while logic deals with the principles of correct reasoning. The two major philosophical views are ontology and epistemology (Saunders et al. 2009: 109).

Ontology deals with nature of reality (Burrel and Morgan 1979: 1). This philosophical view can answer the questions like *what is real?* and *what is the nature of the research phenomenon?*. According to ontology, reality can be understood as subjective or objective. When reality is understood as subjective, the perceptions and experiences of people may be different, whereas according to objectivism, social world exists as separate reality. Epistemology concerns with the nature of knowledge and how we construct it. There are also objective and subjective perspectives in epistemology. In an objective view it is thought that there exists an external theory neutral world, whereas in subjective perspective there is no other way to reach the reality than our own perceptions. (Eriksson et al. 2008: 13, 14; Hirsjärvi et al. 2007: 126; Saunders et al. 2009: 110, 112).

Realism is one direction of epistemology, and critical realism, which is close to this research, can be viewed as a type of realism. Critical realism suggests that there exists an observable world independent of human consciousness. According to this philosophical view, knowledge about the world is socially constructed. (Eriksson et al. 2008: 19). The reality cannot be observed in itself, but a human being can, with the help of a scientific study, try to achieve more perfect and precise knowledge about the reality. (Denzin and Lincoln 2005: 13; Niiniluoto 1984: 144; Poutanen 2005: 181). That is the purpose of this study to try to achieve more precise knowledge about international human resource management of small and medium sized firms, with the help of a scientific study.

After the research philosophy is defined, next the research approach can be chosen. There exist three different types of research approaches: deductive, inductive and abductive. Theory is the first source of knowledge in deduction, whereas in induction, data is the first source of knowledge. Usually most researchers use both deductive and inductive approaches at least at some point of the study. This research applies abductive approach, which is a combination of inductive and deductive research approaches. Abductive study is chosen because an initial model of international human resource management of SMEs is already formulated in the theoretical part and the model is modified by utilizing the empirical data. (Eriksson et al. 2008: 21, 23; Saunders, Lewis and Thornhill 2007: 118–119).

5.2 Qualitative case study

This study applies a qualitative research method, which strives to describe the substantive world. In the qualitative research the research data is verbal or visual. (Hirsjärvi et al. 2007: 133; Uusitalo 1991: 79). The qualitative method is chosen because in this type of method the problem is studied as comprehensive as possible. The basic idea is that the subjects' perspectives of the studied phenomenon can be found. Some typical characteristics describe well qualitative research method. One of these features is that a human instrument is utilized when collecting the data, which means that the researcher by his/herself is collecting the data. Usually the data is collected by using qualitative methods where research subjects can express their perspectives. These kinds of methods are, for instance, interviews and observation. Interviews are utilized in this research and later it is analyzed what kind of interview type is chosen. Another typical characteristic of the qualitative study is that the subject group is chosen purposively. Typical for this type of research method is also that the research is very flexible and therefore the research plan can be changed during the research process. (Hirsjärvi et al. 2007: 160; Kiviniemi 2001: 72, 75; Uusitalo 1991: 81).

Case studies are fairly typical in business researches (Eriksson et al. 2008: 116; Yin 2003: 1). The basic idea in a case study is to investigate a particular phenomenon empirically in a real life context. (Yin 2003: 13). Case study was chosen as a research strategy because the idea of this thesis is to gain a rich understanding of the international human resource management of SMEs, which is poorly studied at the moment. Case study can be used both in qualitative and quantitative studies but naturally then the data collection methods differ from each other depending on the research methodology. (Simons 2009: 5, 19; Uusitalo 1991: 76). As it is already stated, this case study applies qualitative methods. A case can be defined as an entity: e.g. an individual, an organization or an institution. According to Simons (2009: 4), a case could also be a wider concept including policies and processes. Eight different cases are used in this study. Multiple cases are utilized in order to make sure that the results of the first case are consistent with the other cases. This naturally also constructs the validity of the study. (Eriksson et al. 2008: 115; Saunders et al. 2009: 146; Yin 2003: 12, 35).

Eight companies that were at the different phase of the internationalization process were chosen to this study. The companies come from different business fields which enriches the research results. Case companies are presented anonymously and every company has had some kind of international operation already almost from the beginning of the

foundation. Company A is an industrial company which employs about 90 persons. The company has had international operations already for several years and it has a subsidiary in USA. Company B is also an industrial company and it employs about 60 persons. The company is exporting its products to several countries. About 220 employees are working in the industrial company C. Company C has operated internationally over 40 years and has subsidiaries, for instance, in Europe and USA and joint ventures in Asia. Company D is a research and product development firm and it has merged with an American company. It is the only small sized company of this study, thus it employs fewer than 50 employees. The rest of the companies are focused on technology field. Company E is a young startup firm which has about 70 employees and it has started international operations soon after the foundation and it has now two foreign branches. Company F is also a startup company but it has operated few years longer than company E. There are over 70 persons working in company F and it has branches in several Nordic countries. Company G employs about 110 persons and it also has branches in different Nordic countries. Company H has about 200 employees and it has had domestic and international customers already from the beginning. The company is now operating in three different European countries. The table 3 sums up the case companies.

Table 3. Case companies.

Case company	Company size and field of business
Company A	Medium sized industrial company.
Company B	Medium sized industrial company
Company C	Medium sized industrial company.
Company D	Small sized product development and research company.
Company E	Medium sized technology based company.
Company F	Medium sized technology based company.
Company G	Medium sized technology based company
Company H	Medium sized technology based company.

5.3 Interview as a data collection method

An interview is a typical method for collecting data in a qualitative study. It is a situation where two or more people are discussing purposively (Kahn and Cannel 1957). An interviewer asks questions from an interviewee from a specific theme from which the interviewer wants to get more information (Warren and Karner 2010: 126). Interviews are useful when gathering valid and reliable data that are significant to researcher's study. Especially in case studies interviews are viewed to be one of the most important sources of information (Yin 2003: 89), thus data of this research is collected with the help of interviews. (Hirsjärvi et al. 2007: 199; Saunders et al. 2009: 318).

There are different interview types. One of those is a structured interview where the main purpose is to ask the exact same questions from each interviewee in the same order. A form is used as help in this type of interview. Structured interviews are used especially to collect quantifiable data. A semi-structured interview is another type of interview. In this type of interview the interviewer has a list of questions and themes which he/she asks during the interview. The order of the questions/themes is not as strict as in structured interviews. A semi-structured interview also allows the interviewer to ask additional questions if more information is needed from a specific theme. An unstructured interview is the opposite of structured interview because it is totally informal. An unstructured interview is also known as an in-depth interview. In this type of interview the interviewer talks freely because there is no predetermined list of questions. This is the most challenging type of interview. (Eriksson et al. 2008: 81–83; Hirsjärvi et al. 2007: 202–204).

A semi-structured interview is applied in this study. Flexibility of the semi-structured interview is a huge advantage (Robson 1993: 229). This enables the interviewer to clarify and deepen the answers of the interviewees during and after the interviews. This cannot be done when making, for instance, a questionnaire. A semi-structured interview is also flexible in regard to the order of the questions because the interviewer can change the order of the questions from one interview to another. (Tuomi and Sarajärvi 2009: 73; Hirsjärvi et al. 2007: 199–201). This type of interview was also chosen because the approach of the research at hand is not so well studied and semi-structured interview allows the interviewer to ask additional questions. One disadvantage of the interview is that the credibility of the interview might suffer because interviewees tend to answer socially desirable answers. (Saunders et al. 2009:

312, 318). Interviewing is also really time consuming and it requires careful preparation. Less than 30 minutes interview is usually valueless but a too long interview can be unreasonable for a busy interviewee. Thus it is the responsibility of the interviewee to direct and finish the interview. It also might be problematic when interviewees drop out of the study. However, this is a problem also in other data collection methods. Despite of the disadvantages, semi-structured interview has a lot of advantages because with careful preparation it is possible to gain rich research material. (Robson 1993: 229–230).

Research material is collected by interviewing HR managers or those persons who are in charge of HR issues in the internationalized Finnish small and medium sized enterprises. The small and medium sized enterprises are defined according to the definition of European Commission (2003), thus only those companies are chosen to the study. The sample is chosen by applying a purposive sampling technique which is one alternative of non-probability sampling techniques. Non-probability sampling technique is based on the researcher's personal judgment, which means that the cases are chosen based on that what the researcher thinks which are the best cases to answer the research question. (Saunders et al. 2007: 281–284).

Research interviews were organized on 27.1. – 07.03.2014 and the interviews lasted from 30 to 60 minutes. Interviews were carried out at the offices of the companies but one of the interviews was organized via telephone because of the limited amount of time. One firm wanted to have a look to the interview questions before the interview but interview questions were not sent beforehand to other companies. In the interviews, HR managers or the persons who were responsible of HR issues were interviewed. In two of the companies two persons were participating to the interviews because they also had some knowledge about HR issues. Attachment 1 contains the list of the final interview questions. The first questions concerned the interviewees and the internationalization process of the firm. After that it was asked about how internationalization affected the human resource management of the firms. Thereafter what kinds of internal and external factors influence the IHRM of SMEs, and finally it was asked what international human resource management issues should be developed. Interviewees allowed the interviewer to clarify answers after the interviews on demand. All the interviewees also got the final version of the thesis.

5.4 Data analysis

The purpose in qualitative study is not only to describe the data but also try to construct theoretical overviews from the data (Eskola and Suoranta 1999: 62). Because the data does not speak for itself, it needs to be analyzed (Simons 2009: 118). The most common method, when analyzing qualitative studies, is content analysis. Content analysis means text analyzing and it is used when the research causes a lot of data (Hirsjärvi and Hurme 1995: 114). Krippendorf (1986: 21) defines content analysis as follows: "content analysis is a research technique for making replicable and valid inferences from the data to their context". The purpose of the content analysis is to organize the data into compact and clear form in order to make clear and reliable conclusions of the studied phenomenon. When making a content analysis, it is important to keep in mind what is significant in the study, and when the decision is made, then the researcher concentrates only on those issues. (Tuomi et al. 2009: 91, 92, 103, 104, 108).

Tuomi et al. (2009: 107–108, 117) separate three different ways of content analysis: inductive, deductive and abductive content analysis. As the names imply, these three different forms of content analysis are linked to the three different research approaches which were explained in the chapter 5.1. In the inductive approach the analysis is based on the data, whereas in the deductive approach the analysis is based on the existing theory, which means that the empirical data is linked to the existing theoretical concepts. In the abductive approach the empirical and theoretical part are combined and new issues can be found from the empirical data, which can be added to the existing theory. Because this study has an abductive approach, abductive content analysis is applied. At the base of the analysis is the model of international human resource management of SMEs (figure 6), which was formed at the end of the theoretical framework.

The figure 9 presents the analysis process. At first the recorded interviews are transcribed, so that the data is easier to handle. The accuracy of the transcription differs depending on the purpose of the study. In this research it is enough to transcribe interviews word for word and it is not necessary to take into account, for instance, sighs or stress of the interviewees. (Hirsjärvi and Hurme 2008: 138–140). Thereafter the data reduction basing on analytic choices occurs. It is a process of selecting, focusing and simplifying data (Miles and Huberman 1984: 21; Simons 2009: 120). Thus the focus is on issues which are important for the purpose of this research. After the data is reduced, it needs to be categorized which is an essential part of the analysis. Categorization of

the data helps to analyze the research data and to draw conclusions. Categories can be understood as conceptual tools. In this study the categories are formed based on the interview questions. The final goal of the research is not only to reduce and categorize the data, but there is a need to interpret the data and to draw conclusions. (Hirsjärvi et al. 2008: 147, 149–151; Miles et al. 1984: 21–23).

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┌─────────────────────────────────┐
│  Transcription of the interviews │
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┌─────────────────────────────────┐
│        Data reduction            │
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│     Categorization of the data   │
└─────────────────────────────────┘
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                 ▼
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│       Drawing conclusions        │
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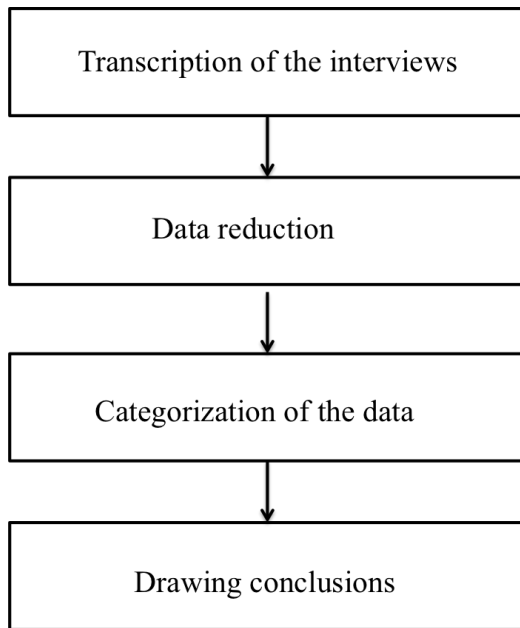
Figure 8. Data analysis process.

6. RESEARCH RESULTS

6.1 Internationalization processes

The companies operate or have sales in several countries. All the companies had already from the inception the vision to go abroad and they had some international operations soon after foundation. None of the companies had a purely traditional way to internationalize.

One of the industrial companies (company B) is exporting its products to several areas such as Europe, Japan, Canada and Chile. This is the only exporting company in this study. The other industrial company A is also strongly export-oriented and they have a subsidiary in the USA, and the company has had a US subsidiary already a dozen years. Company C also has experience from international operations for over 40 years. Over 90 % of its sales are exported abroad and it also has subsidiaries in several countries in Europe and in the USA. In addition company C also has, for instance, joint ventures in Asia. Three of the technological companies E, F and H were selling their products/solutions abroad before establishing foreign branches. The decision to establish a foreign branch was based on that the companies needed to get the sales closer to customers. These companies are operating, for instance, in Nordic countries, the USA, Germany, Great Britain and Switzerland. Two of the companies expanded their operations through mergers and acquisitions. The other one of these companies, company G, was looking for similar products and products that could fit to their company to widen their product portfolio. Acquisitions were therefore a natural choice for them. This company is mainly operating in Nordic countries. Company D has started its internationalization through mergers also in order to widen the product portfolio and to get involved into active projects. The company already had one merger which failed because of the unsuccessful integration, but later on it has formed another merger with an American company.

As it is possible to notice some companies have leapfrogged the stages of internationalization. An important issue during the internationalization is the process of learning when going to a new country. It is a very educational experience and after that when one goes to another country one is much wiser and able to do the expansion better. As one of the interviewees states:

"[…] well it went better when we went to the USA than to the UK. When we learn how to expand to the next country, then we are experts."

Some of the companies, like company E, can even be called as born globals because of the quick internationalization process. The internationalization process of companies A and C is closer to Uppsala model than the internationalization process of other companies. Common characteristics in internationalization are that the companies increase their foreign operations all the time and they learn and achieve knowledge while internationalizing. Thus there are features of both Uppsala model and born global style in the internationalization strategies of these firms.

6.2 IHRM of Finnish SMEs

IHRM of Finnish SMEs varied a lot between the companies because they use HR practices differently and have different ways to do things. Typically SMEs did not have any separate written HR strategy, but it was included in the overall business strategy. Some of the SMEs however had some plans and goals for HR. The IHRM of those SMEs which were larger and have operated for a longer time was more formal than in those firms which were newly established. Smaller companies also noticed that the ways of small companies do not work for a long time when the operations expand and they need to start to operate like large companies.

"[…] the basic issues like admin issues need to be totally different when we grow."

"In the course of time we have to make things like large firms because the ways of a small firm do not work when we grow."

Almost every company had an HR person who was concentrating only on HR issues, but in company A, the CEO was taking care of HR issues alongside her other duties. All the companies did not have a separate HR person from the beginning of the company's history, but they later on hired an HR person when the company grew. In two of the companies (D and H) they also had HR persons in the foreign units. Because the companies are operating in several countries, HR needs to keep an eye on every direction and every country where the company is operating.

"It requires from us that we need to keep an eye on three directions all the time, so that we have the USA, the UK and Finland, and we need to know how things work in different countries."

6.2.1 The first effects of internationalization on IHRM

In most of the companies, HR issues were considered already at the beginning of the internationalization process. Some companies did only what was legally required, whereas others were ready to invest more resources in HRM. It was important to think about the HR issues at an international level and to get to know the requirements of different countries in an early phase. Internationalization was not however so easy for one of the companies which came across disinterest towards HR issues after the internationalization.

Finnish small and medium sized companies thought that it was important to think about HR issues at the international level from the start. This requires, for instance, the corporate language to be English, and in the export company B it required that they have people who can speak different languages because any business is not done in Finnish abroad.

"[…] a simple thing like corporate language, in which language documents are produced, if it is in Finnish at first, you need to do double work […] but if it is for example English, then the language does not restrict that we need to hire only Finns."

"[…] in our company the knowledge of languages has been very important."

Most of the companies thought that at the beginning of the internationalization process it is important to make sure that the basic HR processes, like recruitment, development, appraisal, reward and management of expatriates, exist in the company so that the firm has clear boundaries and HR can support the internationalization of the firm from Finland. Like the interviewees state:

"[…] these first issues are building the basic processes […] you could say that these are the basic duties of an HR person because if everyone in the company does things in his/her own way, it will lead to a mess."

"[…] the most important thing was to build the basic HR processes and then it is possible to start to think about this in a wider perspective."

"[…] well internationalization has affected in the early phase because we have started to do things at the international level, so that when people have gone abroad, we have the support functions here".

"[…] first things where internationalization affected were the Finnish HR practices, we needed to create packages for expatriates, contracts, and to think about the global mobility and how to support those."

The empirical data indicates that especially small startup-firms which have just started the business do not always have the chance to get to know the local conditions beforehand because the business moves and grows so fast, thus their approach to HRM is more informal and ad hoc. In that case HR in a way runs behind the business and tries to do that what is required legally. These firms also do not have the resources to invest in HR at this point because the sales need to grow first.

"[…] at first it is important that you have a person who only controls that everything works […] and you don't do anything else. Then you only do what the law requires."

"[…] well it is so that when you start to recruit people abroad, you need to know a bit more about those things, therefore we have looked up what kinds of issues there are in these countries. […] Sometimes it happens so much there, that you don't always know everything beforehand, but then you also learn".

"[…] it has been really educational because you have not always known what it is required in other countries, and when you have found out, you have been like oops someone has worked there for a couple of months, I wonder whether everything is okay? Well, you need to react quickly and try to do your best make things work because people go abroad because of the business and start to do it, then our administration team, which is formed of finance, HR and legal issues, runs behind and try to fix everything so as they should be."

Sometimes it is not possible to take the HR issues into account even though in the company there exists a person who is in charge of HR. In company D, HR issues were

handled in a very good way before the internationalization. After the internationalization everything changed because the other company in the merger did not appreciate HR issues at all and the HR manager did not get any support from the management, thus HR processes stagnated.

> *"I thought that when it is an American company, all the HR processes come from America that it is the Promised land of HR. [...] I went there and had the presentation over our labor of law and our labor market [...] after the presentation prevailed full silence and I understood that they think that HR function is not needed in the company [...] it was enough that they make the contract of employment and pay the salary and that's it. [...] And what then happened, our functional HR practices froze. "*

In this company, HR department did not get any support from the management until a new manager came to the company who understood the concern of the HR manager, and they started to build the HR processes again.

6.2.2. IHRM practices

The level of internationalization and the company size affect the use of IHRM practices. Those firms which are larger and have operated for longer time in the foreign markets had more formal HR practices than, for instance, the firms which have not operated for such a long time. In company B, HR did not have such a huge role even though they have operated already for a while in domestic and foreign markets, but they were planning to invest more in HR.

SMEs used IHRM practices very differently and there was no common way to apply those practices, but still some similarities were also found. The level of the internationalization and the company size affect the localization and the globalization of HR practices. Company H was at the moment balancing with globalization and localization issues. Typically the first phase is to globalize HR practices, and after that the companies start to balance between localization and globalization. Of course the local requirements, languages and cultural differences affect already at the beginning and force the companies to localize some parts of the HR practices, but the basic ideas behind HR practices remain the same.

" […] the first phase when subsidiaries are established, it is important to keep everything consistent and when we have done that, we start to think where we should and have to localize and then we start to balance between localization and globalization."

The main idea in international business is to take the cultural differences into account as the HR manager of company C states:

" […] it is important to take into account that there is global HR and then there is local HR, and in every unit localization is also needed. It does not work in a way that everything is regulated from the head office. When in Rome, do as the Romans do, we need to act according to it."

SMEs also thought that it was important to have similar tools in every country in order, for instance, to ease reporting. In the interviews it was asked about following practices which already have been discussed in the literature: resourcing, development, appraisal, reward, job well-being, health and safety, management of expatriates and repatriation. The work orientation came up in couple of the first interviews, thus questions were also asked from this practice.

Resourcing

Recruitment is an HR practice that takes a lot of time in small and medium sized enterprises. Due to the internationalization of the business recruitment is now even more time consuming because HR persons need to travel to different countries if recruitment is not localized. Of course the technology eases the process because Skype and other online connections can be utilized.

The staffing approaches of the SMEs varied. Nevertheless, it was noticed that SMEs utilized more ethnocentric staffing approach because mainly Finns were hired to Finland and also the key positions overseas were dominated by Finns. However, the staffing approach was not purely ethnocentric because local people were also used in order to serve the customers in their local language. The direction was to recruit more HCNs or TCNs also to management positions and in some organizations host-country nationals were already hired to management positions. The main reason for using parent-country nationals was to maintain the organizational culture and to bring the organization's ways to do things also to foreign business units. The situation is different

in those firms (G and D) which internationalized through acquisitions and mergers because they got the employees through the acquisition/merger, and therefore they did not have the need to recruit new people, thus the local people are still working in the foreign units.

Internationalization has an effect on what kinds of persons are needed in the company. Because of the internationalization and smallness of Finnish SMEs, they need multitalented persons who can speak or are willing to learn to speak different languages. Employees of internationalized SMEs also need to have the right attitude towards different cultures because, as one of the interviewees said, languages can be learnt, but it is harder to change the attitude.

> *"We have to have multitalented people because of the small size and because we are operating in the whole world. […] then in addition persons need to be willing to understand different cultures and they have to be able to adjust to different requirements of the countries, flexibility is needed too. […] Of course language skills are important, but more important is the attitude towards learning languages and cultures because the attitude is harder to change"*

> *"We need to recruit people who speak different languages and are adaptable and who are social enough that they cope well also abroad."*

As it was already mentioned, the internationalization of the firm has kept HR persons even busier because the recruitment process requires a lot of time. Companies had different ways to handle the process. Some of the companies have localized the process to superiors or an HR person in their foreign business units, whereas in some organizations the process was handled from Finland. The latter way naturally required the HR person to travel a lot and to find some recruiting support in the foreign country. Like the interviewee states:

> *"Internationalization has affected a lot because I am the only HR person, it requires from me a lot of time and travelling because I am always involved in the whole process."*

Always when a CEO or another special person was selected, Finnish HR was being involved in the process, and of course also in other cases when support was needed. In

company B, the management had a big role in the recruitment and the HR person only handled the administrative process of the recruitment.

Some of the companies needed to make a lot of marketing in order for people to get to know the company. They worked hard in schools and in recruitment events to make the company more familiar to possible employees. SMEs utilized multiple recruitment channels. When recruiting a person for a bigger role overseas, headhunters were utilized in many companies. Headhunters were used because these firms are small in Finland and even smaller in abroad and not able to provide the biggest salaries. Online recruitment pages (e.g. LinkedIn, Monster), blogs, web pages, newspapers and word-of-mouth were popular recruitment channels among SMEs. Recruitment firms were also utilized especially in overseas recruitment in order to get some more support from foreign countries and to find the right employees. When using recruitment firms, SMEs found it hard to get the recruitment firms to understand what kinds of employees are needed, thus utilizing outsiders did not always reduce the workload. Some of the companies also collaborated with universities and recruited students from there.

> *"We recruit people through our employees, we use headhunters when recruiting people for key positions abroad. Because we are a small firm and cannot offer the biggest salaries, we needed help in recruitment."*

> *"Here in Finland we recruit a lot of people through our own employees, through internal recruitments and then through normal job advertising in blogs, web pages, and we also organize a lot of events."*

> *"We have tried these firms, recruitment firms, a few times, but it has not always reduced workload. It has however increased the costs and for some reason those first persons who they sent to our firm to the interview, were not the types of persons who are needed here. Somehow the soul of our company was lost on the way."*

One of the interviewees wanted to advise internationalizing SMEs in recruiting because it is not an easy process especially when you start to recruit people abroad. It requires time and knowledge about the local markets.

> *"I have to say that if someone wants to have some concrete help then I have to say that before you even think about hiring a person abroad, think about it at*

least three months before the establishment of the company and don't try to establish the foreign business unit at the same time when you are recruiting. It does not work like that. […] when we speak about people it is important that you can look a bit ahead because we don't speak about issues but human beings."

Work orientation

Work orientation came up in some of the first interviews, thus a question about this HR practice was added later to the interview questions in order to get some more understanding how it is handled in Finnish SMEs. It was noticed to be an important HR practice and the results indicate that these firms put some effort to that process.

> *"Our work orientation process works very well. We have a very good way to familiarize employees to our business and then we have orientation instructions. We go through every function in the organization and the key persons present those functions."*

As in recruitment, also work orientation varied in the firms. In most of the companies the whole orientation process was on the responsibility of superiors, whereas in some companies HR and superior together were in charge of the process. Some companies conceive of the work orientation as a hard process because it does not only include the work orientation but the person should get in to this community.

> *"Our office manager does it but it is not only the work orientation […] but you should get into everything and you should get into this community, so that is hard."*

Two of the firms, company F and G, have tried to ease the process. They think that it is important that new employees come first to Finland for a couple of days, especially in order to learn and internalize the corporate culture and the ways of doing things. This was still working because of the small size of the companies.

> *"It is important that the local person who is hired comes first here to learn of course the product, our way to operate, to see how our sales work, and to learn the corporate culture, so that the same culture as here in the head office prevails in the foreign country."*

"The orientation or the whole employment starts with the employee first coming to Finland for three days. [...] In these three days we provide some basic knowledge about the company, how we operate, what kinds of instructions and tools we have and then we provide some job specific information."

A couple of the firms utilized a company policy book which they called, for instance, an HR handbook. The company policy book is used in work orientation because it contains all the issues which are good to know when a new employee comes to the company. Company B had a handbook in Finnish and in Swedish, but they were planning to make one in English even though they have only a couple of foreign employees. In company E, an own handbook was made for every country which contains country specific and company specific information.

"Some issues are the same in the handbooks, like cultural issues or how we communicate in the company and that kinds of issues, but then there are so many things which need to be different, like holidays and other issues. These are really different in the UK and in the USA. You need to look what the law requires there."

Development

Internationalization has clearly affected the development of employees. Especially language and cultural training are needed in Finnish small and medium sized enterprises because business cannot be done in Finnish. In the firms where the average age of employees is higher, language trainings were more useful than in organizations where the average age of employees was lower because younger employees were already good with languages. For instance, in company D they have had some language problems which they have tried to improve by providing language trainings.

"[...] we have had language training and we have provided education to understand different cultures. [...] it is important that you are able to discuss fluently in meetings because especially older people really think about the grammar when speaking English. The reaction time is too long in online meetings and often therefore you are not able to say what you want. So this is challenging."

It is also important to know different cultures and how to operate in different countries. Thus employees need training how to get along with people from different cultures.

"[...] those people who travel a lot and are sometimes in very difficult situations, so we have tried to provide them some training how to get along with people from different cultures."

For instance, company B has noticed that it is important to have some knowledge of the cultures because things do not work abroad in the same way as in Finland.

"I think it is different to do business with Russians, I think that when we go there, it is important to know the culture and to know how things are done there."

In order to run the business legally, companies need to have the knowledge of the legal requirements that change all the time. In all the companies it is of course dependent on the department of the company that what are the training needs, but all in all it is important to maintain the know-how of employees. In the growing technology companies things and roles of employees change very quickly. Thus these companies need to keep the competence of employees at the right level by providing training.

"I would say that when we are growing and first of all, because we are a startup company, we need to take into account that the roles can change quite a lot, thus we need to take care of that the competence of employees is at the right level all the time".

When utilizing external training providers, like Chamber of Commerce in Finland, it was noticed to be challenging to find similar training providers from other countries when the company was willing to organize the trainings in employees' own mother tongue.

"Superior trainings always cause me grey hair: how can I implement trainings so that everyone would get the same information in a same way because the language always becomes a problem because I do not like to organize superior trainings in English because the reciprocal communication suffers, even though people speak good English."

SMEs however utilize more internal than external trainings. Company H has a systematic approach to development. The company has company-wide strategic competence areas and they share their best practices. They even have competence managers at the global level who develop company's competence areas and travel in every domestic and foreign site. Also foreign assignments were used to develop their employees.

"[…] we have chosen heads of competence who develop the competence area. Their task is global and so they travel in every site. […] then we have developed company-wide strategic competence areas and these are at global level. […] we also share the best practices."

Company E has a very technical product and the product development was placed in Finland. They thought it was sometimes hard to communicate the new features to local offices so that they are able to sell the product. The company has developed a technical client manager who is responsible of that.

"[…] we have the whole product development of the company here in Finland and this means that when things change and are developed, someone here in Finland has the technical knowhow, so how we can communicate these new issues to others that they can sell the product. We have now a technical client manager who has visited local offices. He went to the USA and taught them the new things we have."

Some of the SMEs were planning to record on video the basic training programs so that employees could also later on go through the trainings. Online tools were also utilized in internationalized SMEs because people from foreign units were able to participate in trainings organized in Finland through video connections.

Appraisal

Five of the companies (C, D, F, G and H) had an equal appraisal system for everyone in the domestic and foreign business units. In company D, the basic idea in appraisal is the same in the whole company, but there are some variations depending on the level of the employee status in the organization. The other companies (A and E) had different appraisal systems for different functions. Company B did not have an appraisal system,

but they were planning to start development discussions again where employees' performance is appraised.

> *"[…] we do not have any common system in the whole company, but we do have different systems, for instance, in product development they have their own ways to how they can control the work, but we do not have any common appraisal system."*

> *"[…] yes we have a common system, we make goals for every month and define measures for those goals and this is in every position regardless of that what you do."*

Those firms that had one appraisal system had very systematic system. Usually appraisal was linked to development discussions which were normally organized once a year, but company H had development discussions two times a year. In many of the companies they had defined goals and measures, and people were rewarded based on those. Some of the firms had country specific goals, whereas others had same goals regardless of the country. In the development discussions it was discussed whether or not people have achieved the goals and what can be done to achieve the future goals.

> *"Yes we have goal and development discussions once a year and we have personal and organizational measures. And these are in the whole company."*

Company H had a very heavy process two times a year where employee's career level and salary were appraised. They have defined different career model levels in their company and people are appraised based on those models.

> *"We have development discussions two times a year […] then the superior suggests a career model level or a rise in salary and sends the information to us […] these are presented to the executive group and after that we have meetings where HR, superior and superior's superior meet, and we go through all the employees, compare those to career model expectations, and we have a public career model list, and then we try to make the final career model level rises and decisions and then the development discussions start with superiors and mentors, and if they make some other changes that are not decided earlier, then we start the round again."*

Company A has noticed that cultural differences affect the development discussions because they could not have the same kinds of development discussions in both units. For instance, in the USA employees were not willing to give any feedback to their superiors in the development discussions because they thought that it does not fit to their culture. Nowadays they have however tried to steer the development discussions into the same direction as in Finland.

> *"At least once a year we should make a development discussion with everyone, and the same in the USA, but in the USA they have had a little bit different development discussion because they thought that our development discussion is so terrible [...] they thought that it did not fit to their culture, that a superior would ask to give him/her some feedback."*

Some companies could not find any measures for appraisal because they thought these are unnecessary in a small company because it is possible to see who tries to achieve the goals and who does not.

> *"There is no point involuntarily to find some measures, I do not see any value there. But it is more like we have to show what is valued in the organization and where we are aiming at and in such a small organization we can really see who is truly striving to the goals and who is not."*

Reward

SMEs had different kinds of systems for rewarding, and in most of the companies, appraisal was linked to rewarding. In two of the companies (B and E), only salesmen had some bonus system/ provision system and other financial rewards were not used. The most common reward method was bonuses. Also sales commissions and option systems were used. The company G has not found any suitable bonus system or reward system which would really support the business.

> *"We do not have a bonus system or a reward system. [...] Because we have not found any way that would really support our company in a right way because we don't want that individuals would try to get benefits for themselves as much as it is possible."*

Sometimes cultural differences can affect rewarding because, for instance, company D did not really have a bonus system before the merger, but after the merger they got some influences from USA and have now an option and bonus system for the whole company.

> *"We have now option and bonus systems for the whole personnel. Before that we had just the basic salary in Finland. [...] now because of the Americans we have a bonus system. It is now new and it concerns the whole personnel, but we have had a different perspective because the American way is so individualistic, competitive and performance oriented, that we have been here so amazed because the basic salary has been sufficient for us."*

Also the benefits differ in different countries because of the legal requirements of the countries. Companies have however tried to offer same kinds of benefits for every employee in every country. In Finland employees get an occupational health care but this is not required in every country although some of the SMEs have tried to provide these kinds of possibilities also for employees in foreign units. Thus benefits can create some challenges for HR. A simple thing like a phone benefit in Finland is already different in Sweden because of the legal requirements.

> *"[...] phone benefits [...] in Sweden it is so different, such a simple issue that is normal in Finland, and there they don't really know how to deal with those issues. Here you can use the phone on the tap of firm, but in principle, according to the law of Sweden, you cannot use it for private calls, but it is really unclear because no one can control that and people still use it for private calls."*

Some firms have also found it hard to define the salary levels in different countries. It is always important to compare the salary levels and benefits in different countries when making the decisions. When thinking about rewarding and benefits, it is good to remember what the HR manager in one of the SMEs says:

> *"When comparing rewarding and social differences, you cannot think that the salary here is same for the same work as the salary there."*

In company C, they have noticed that when the issue at stake is rewarding, there is no point on trying to have similar rewards systems everywhere, but it is dependent on the country and the part of the country:

> *"You shouldn't try to bring everything in a same way in to the local units, but you need to look if it could work there. It is dependent on the country and the part of the country."*

SMEs cannot always offer the biggest salaries, but they try to reward and attract people with non-financial issues. They can offer good development possibilities, interesting projects, they give feedback and take people into account. After a good performance, firms might reward people by organizing sauna or restaurant events or reward people with other small issues. For instance, in company A they choose an employee of the year.

> *"We choose every year "a collar of the year", and we print a certificate of honor for him/her. […] it is a tribute for the employee […] people appreciate to hear the reasons for getting that."*

Job well-being, health and safety

Job well-being, health and safety are the most localized HR practices in SMEs because legal requirements of different countries vary so much, but in every company they were striving to offer same kinds of conditions in every business unit. The interviews indicate that small companies which have recently started their business cannot invest so much in job well-being, health and safety, whereas companies which have operated in the markets for longer time. This is due to the limited resources.

> *"Now we do the minimum what the law requires […] if we would like to have more like caring caring HR, our HR person needs to have another person to help because now she recruits and that takes so much time."*

> *"When the company becomes more stable we have more money and time to invest in these things."*

In every small and medium sized enterprise good atmosphere was highly valued and it was at a good level in most of the companies.

"The well-being comes from people being acknowledged and us having a good atmosphere."

"Well most of the people enjoy working here. We have always had a good spirit here."

"We have a good feeling here."

Most of the companies provide different kinds of activities for their employees, like gym, break exercises, after works, weekly sport activities and other activities in the free time.

"Yes we have started to offer, at least here in Finland, break exercise, language courses for those who don't speak Finnish and stuff like that and of course we have quite a lot of after works and other strategy days."

"We have a weekly gym class. If people want to swim, we pay the half of that. Then we have floorball and badminton groups."

These kinds of activities were mainly organized in Finland, but some of the companies thought that they would like to start to organize more activities also in the foreign branches. They still think that it is good to remember that what works here in Finland might not work in the foreign business units.

"We have started to think those issues but it is important to think about these one office at a time because this is not like if we do something here it might not work in the UK or the USA, thus these need to be considered one by one."

Company G tries to offer same kinds of possibilities in every country, but they have noticed that it is really challenging. For instance, occupational health care is something exceptional in Finland and other countries do not have same kinds of services. This, of course, creates challenges for HR if they try to offer same kinds of services in every business unit.

"In every country we try to have the same functions and the same ways to operate. But it is difficult to carry out the same kinds of issues in every country because that isn't always possible. For instance, in addition to the statutory

occupational healthcare, we have health insurances, so these we cannot offer in the same way in Sweden, and there people go to communal health care. It works better there and we have thought that those aren't needed there."

"For instance, the Finnish occupational health care is really exceptional and in every country these issues are different like insurances and other that kinds of issues."

Internationalization has influenced safety issues because employees need to travel more. Thus it is important to take care of their health and to make sure that they have all the required inoculations. Sometimes these companies do business in dangerous countries and in this case employees are not allowed to travel to those countries.

"Internationalization has affected safety and health issues because of the increased traveling. Those people who travel mostly have obligatory physical examinations. [...] Then we need to take care that people have the necessary inoculations which are required in the countries. And if we speak about safety, with a country which is a bit unfamiliar, we control what the recommendations are to travel to the country. [...] We check these issues quite carefully and we have had situations when we have said that we can sell the product to you, but none of us travels there. [...] and we have sold a couple of our products so."

Other safety issues what these SMEs think about are more like ergonomics at the branches.

"The most important thing which is linked to safety issues is work ergonomics."

"Because we have the statutory occupational health care, someone from there comes to check the ergonomics if we, for instance, make big changes at our work place."

The investment in job well-being, health and safety issues are also dependent on the company culture and the company size. For instance, in company H they have a very caring and human culture which affects positively their job well-being. Because of the firm size, they were also able to invest in these issues. The company promotes knowledge sharing among its employees and they have weekly and monthly meetings were people discuss about their workload, well-being and goals. They want that well-

being is not only the responsibility of the managers, but it is everybody's responsibility to take care of each others.

> *"We have monthly meetings where we discuss what people have learnt in previous month and how they have tried to reach the goals and what they are planning to do to reach the goals. Then we have weekly meetings in the teams where it is discussed what the current feeling is, workload and coping and things like that. This is based on that the whole team is listening and it is not only the responsibility of superiors but everyone looks after everyone."*

In company D internationalization has created uncertain times and therefore the job well-being has suffered in the firm. Before the internationalization, job well-being, health and safety were highly valued and these were at a good level and they also had a very good atmosphere in the old company.

> *"Internationalization has affected in a way that it has created uncertain times for us and it has damaged the job well-being. You cannot look things forward because all the time you have the feeling that: does the operation end here in Finland because all the active projects are in USA?"*

The company has now started to discuss and to build job well-being again because employees who are not feeling well cannot really perform their job.

> *"Last month I have tried, together with our occupational health care, to highlight this and now it is time to do something. After these hard times we need to start to take care of our personnel."*

Management of expatriates and repatriation

In most of the firms, Finnish people were in foreign business units with local contracts, and expatriates were used only in three of the companies (A, C and H), but the companies C and H are utilizing expatriates at the moment. Also one of the small startup firms, company E, was planning to hire one expatriate. The most popular assignment types were one-year assignments which were lengthened based on the need. Expatriates were also used in projects assignments. In some companies there where were no expatriates because there was no need for them. SMEs also thought that the expatriate process is very complicated and takes a lot of time from a small company.

Some of the firms did not have resources to send expatriates because they did not have any available employees whom they could send abroad. Most of the SMEs also thought that it was wiser to hire Finns with local contracts and hire local people who can speak the local language.

> *"It requires so much work if we would like to send someone as an expatriate to the USA. It is not the same because we are a small company, if the company is bigger, it's much easier to send people with expatriate contracts, for example, to the USA, but it requires a lot of time from a small firm and therefore we need to think if it is wiser to take people from there than send them from here."*

> *"Until now we haven't had any need for expatriates because we have a lack of resources in every branch and we cannot send people from any office to another office, thus it is easier to find a new person and use local persons there."*

The three firms which have used or are using expatriates, use them for many reasons. The main reason was that they have some specific know-how which was needed in the foreign unit. The use of expatriates was also a good way to keep control of and communication between the business units. Expatriates were also used in order to maintain the same kind of corporate culture in the foreign branches. Companies consider carefully whom they can send abroad because it can be a stressful experience. Usually the competence of the person was one criterion. In addition, the person needs to have a global mindset, understanding of cultures and some sort of seniority. Seniority does not necessarily mean the higher age, but the previous experiences and ability to lead the team abroad in stressful situations. The person needs to have the ability to think about business, people and numbers in short and long term. Usually the decision was made based on the preceding issues, but companies also consider the development side of the person because foreign assignments can be very developing and educational experiences.

> *"The technical and other competence what is needed in the project, seniority, global mindset and the ability to survive in a new country, development possibilities, and that the person is able to think about our values 3 x 2, that he/she can think issues from the perspective of people, business and numbers in short and long term."*

"One criterion was of course the job there as in we wanted to have a suitable person for that specific job."

Companies paid a lot of attention to the preparation of the expatriates for the foreign assignment. It was important to choose the right persons and train them well before the assignment.

"We always tried to think beforehand every detail what the assignment might bring and of course in the host country our employees continued to guide and helped the expatriate. We haven't received any criticism that we wouldn't have done the process well."

During the assignment, communication was maintained intensively through different online tools like Skype and by visiting in the local units.

"We have a lot of contact, our support functions travel in different sites and then we have Skype and other general communication channels."

Companies A and H thought that repatriation is very challenging and requires a lot of effort. Company A was not sure if they have really understood the difficulty of the repatriation, whereas company H has started to invest more in the repatriation process after one person left the company after the assignment.

"I'm not convinced myself, no one has told it to me, that we have understood deeply enough the difficulty of the repatriation."

"We have put a lot of effort in that process after one person left our company after the foreign assignment. Our HR contacts those persons several months before the return, and superiors and also the executive group contact them on demand. We start to consider the repatriation ahead of time and what their role could be."

Company C did not have any problems with repatriation and it did not view the process as challenging:

"No, we haven't had any problems with repatriation. We have had a specific task for them in our company after the return, and I haven't noticed that those

people should need some extra help with repatriation. Maybe we have succeeded in the recruitment process and therefore we haven't had any problems."

Table 4. Findings of IHRM practices of Finnish SMEs.

IHRM practice	Findings
Resourcing	• Recruitment is a time consuming process • Different staffing approaches, mainly ethnocentric/polycentric → direction to hire international employees • Need of multitalented people who have language skills, understanding of cultures and are willing to operate internationally • Recruitment channels: e.g. Internet channels, newspapers, word-of-mouth, collaboration with universities, recruitment firms, headhunters
Work orientation	• A lot of effort in work orientation • Mainly the responsibility of superiors or the responsibility of both the superiors and HR • Problematic to get foreign employees into the community → orientation days in Finland • Utilization of company policy book
Development	• Language and cultural training • Training in legal issues • Maintaining competence levels in quickly changing business environment • Utilization of internal training more than external • Sharing best practices • Online video trainings
Appraisal	• Different systems, only one company did not have any system • Five of the companies had an equal system for the whole firm → defined goals and measures • The others had own appraisal system for each department

	• Mostly linked to development discussions
Reward	• Different systems for rewarding → at least salesmen had some system in every company • Rewards methods: e.g. bonuses, options, commissions • Benefits vary in countries partly because of the legal requirements • Hard to define salary levels in different countries • Are not able to offer the biggest salaries → attraction with non-financial rewards (e.g. development possibilities, taking people into account and giving feedback)
Job well-being, health and safety	• The most localized practice → different legal requirements • Not possible to provide same kinds of well-being issues in every unit • Dependent on the corporate culture and size • Good atmosphere highly valued • Providing e.g. sport activities, after works, company days → important to take cultural differences into account • Safety: ergonomics, increased travelling → inoculations and political situation of countries
Management of expatriates and repatriation	• Expatriates used in three of the companies • Reasons to use: maintaining corporate culture and communication, controlling and sharing know-how. • Reasons not to use: no need, no resources, complicated and time consuming process for a small company • Criteria: global mindset, capable to perform the job, understanding of cultures, experience • Intense communication with head office during the assignment • Repatriation important and difficult process → requires a lot of attention, but one of the companies did not find it problematic

6.2.3 Development matters in IHRM

Companies had different ideas what should be developed in international human resource management, but there were some issues which came up clearly. First of all, SMEs thought that the communication in the company and between the different business units needs to be clear and intensive and that can always be developed. Companies utilized, for instance, Lynch, Skype, e-mail, telephone, videos, intranet and blogs for communicating between the foreign business units. They also travelled to different business units and the employees of some of the smaller case companies gathered regularly to Finland. Communication is important in every company and in order to make sure that the message gets through it is wise to use multiple channels. Like one of the interviewees states:

> *"[…] all the important issues, whether it is HR issues or some other issues at the corporate level, we need to take care that we use at least three different channels, revision, revision and revision."*

Because of the fast growth and smallness of the companies, the roles of the people also change quickly. Thus some companies thought that they should communicate better to their personnel that they know who is in charge of which issues.

> *"We should improve the communication and also make sure that everyone knows what the others do here, what your responsibilities are and what are yours."*

SMEs found it important to have similar tools in different sites so that, for instance, everyone would be aware who is absent and who is at work. Similar tools also ease other internal processes.

> *"For instance, now every site has different kinds of systems how to inform about absences. […] In order to ease our internal processes, we need to have similar tools."*

Company C also highlighted the importance of the consistent corporate spirit, culture and methods. It is one of the challenges of HR to create consistent organization so that the local variations are also allowed.

"I think that we should create a common corporate spirit, culture and method, so that is one challenge for HR and also a development matter. And you also should take the local conditions into account when you are in some exotic country."

Some SMEs thought that they should invest more in the work orientation at international level and offer them more activities in order to have consistent conditions. It was also important that people would respect the legislations and customs of different countries even more, in order for the employees to be able to feel parity regardless of the location.

"I would say that it is important that our personnel feel parity regardless of the location. Employees should respect not only the legislation but also customs that different countries have. […] so that we allow a cultural leeway."

The importance of building networks is highly valued in SMEs because usually it is expected that HR persons have a wide knowledge of different issues, like about laws, taxes etc. and normally there are not so many HR persons in the small and medium sized companies. Thus it would be important to create networks also in other countries.

"I think that one of the biggest challenges of internationalization is that I should be the specialist with all HR issues and I should be the one who finds the information when a problem comes up, or if we should develop something, I should know how it should be. So finding the information is sometimes really difficult."

One of the companies has joined to an IHRM-club where there are also 30 other internationalized small and medium sized companies as members. This allows the companies to support each other and to share their knowledge. HR should also communicate much more with business department because it changes so quickly, and then HR can prepare itself better for changing conditions.

"In HR we have a lot of work because sometimes we have to find out some issues of different countries a bit beforehand because we operate so fast and the needs of the business come so fast, thus we should communicate even more with business department."

HR has an important role in internationalizing small and medium sized companies, therefore it is important to maintain the basic HR practices. Company D has really noticed the difference between what it is like to be without HR and whit perfectly functioning HR, thus the role of HR cannot be diminished.

> *"I could say what a strong importance it has now when we have seen the phase when there exist nothing, no HR processes, and the phase when everything functions and people have their basic tasks, so how extreme it can be how people feel and react. You cannot really say that HR is a trifling function, you really cannot say that."*

6.3. Influencing factors on IHRM

Different factors influence the international human resource management of SMEs. One of the factors is communication which was also mentioned as a factor that should be developed in the interviewed companies. Companies need to find a way to communicate every issue so that everyone in the domestic and foreign business units understands the communicated issue in a same way. Internationalization creates challenges to the communication of the companies because company issues cannot be communicated in the own mother tongue.

> *"[…] in internationalization you can notice that they are there somewhere far away, so how you communicate is important and that how you can clearly communicate so that everyone thinks in the same way and understands what we are doing."*

> *"[…] it is one thing how people receive messages, we should use multiple channels to communicate the important things."*

Small companies also do not have so many resources available as large companies, thus they need to think how they use those. It naturally affects the international human resource management. Especially newly grounded firms do not have the resources to invest in HR at the beginning.

> *"It is how you use your resources. First the sales need to grow and after that you can put more money in other functions like HR. The personnel brand is also important, but at this point we do not have so many resources for that."*

In tight financial situations firms which have operated for a longer time cannot also invest in HR activities.

> *"[...] money affects also how much we can organize activities to our personnel."*

The management of the small and medium sized companies affect the IHRM. If the management does not think that HR issues are important, they do not want to invest in HR either. In couple of the companies, the CEO had a big role when making decisions because the CEO was making the decisions which persons they hire and what needs to be done in HR.

> *"Our CEO decides a lot, we have a strong CEO and he says exactly what needs to be done and who we are going to take. I see this as the biggest factor."*

The role of the management is also possible to notice in company D because in that company HR did not get any support from the management and therefore all the HR practices stagnated. Thus the ways how managers see HR issues affect the international human resource management and HR persons cannot do anything if the management support lacks.

> *"It has affected in a way we talked that if management does not see HR processes as necessary then it is really hard to run the processes."*

In all of the companies there was however a person who was in charge of HR issues which can be viewed as a positive influence factor on IHRM because at least in the companies there are persons who were willing to develop and maintain IHRM. Company's organizational culture and values also affect the international human resource management. The effect is dependent on what kinds of cultural issues and values are appreciated in the companies. This means that SMEs have different organizational cultures and values and they should act according to them. For instance in company A, trust is an important value and it also affects IHRM.

"It has a big effect. We need to grow our trust in people, in most of the people anyway. Naturally we try to find people who understand the importance of trust, but when new people come to our company, we do not tolerate ignorance, because our customers need to trust us."

Company's business strategy (the growth and internationalization goals) naturally influences the IHRM. Strategy dictates the need of new employees and what kinds of competences are needed. Of course SMEs want to hire people who are willing to grow and interested working internationally. Like one of the interviewees states:

"Our growth goals are tough and also our internationalization goals, and therefore we try to recruit people who want to grow and develop and who are interested in operating at international level."

International environment creates different challenges also because the legislation of the countries varies. SMEs need to take the legislative differences into account in order to operate legally. Legislation of the countries was one of the biggest concerns of HR because sometimes it is really hard to find the right information especially in a language that one is able to understand.

"And one of the biggest issues that affects is the challenges in different countries. There are so many differences when you think about, for instance, US agreements and what these include, we have struggled with them for many days."

"Every country has its own laws and often if you really want to sink your teeth into the issues, in Norway it is in Norwegian and it is not that easy to understand it, even though I speak Swedish, but I don't really trust myself that I understand it perfectly or I understand what is said in that law text because sometimes when you read it even in your own mother tongue you cannot really understand it."

Geographical locations of the foreign business units create time differences and also challenge the communication; therefore people need to be flexible. Language and cultural issues also influence international human resource management. All the documents have to be produced in English, and different local customs and practices need to be considered when planning international human resource management. People

also need to be open-minded about cultural differences. Usually, when operating internationally, the best way is to make HR issues as simple as possible, in order people from different backgrounds understand these in the same way.

> *"When we speak about internationalization, we need to consider cultural differences and interpretations etc. The clearer the issue is, the easier it is to adopt."*

> *"The local customs of different countries are reflected in the different fields of HR. For instance, now in Germany we know better what the local ways are to recruit so we try to find out the local ways and act according to these."*

> *"When we speak about the differences between the USA and Finland, there are many differences which people have learnt already as babies, therefore you need to be open-minded."*

Actually it would be good to do the business from the beginning in a way that it works wherever you are.

> *"Everything what is done needs to be built in a way that it would work wherever you are [...] you should already from the beginning start to think if it is understood there or if it works there or if we have considered everything. Then it becomes a way of thinking."*

Finally the local conditions of the countries also affect international human resource management. Companies need to consider whether or not it is safe to send someone to a specific country. Thus it is important for HR to be aware of political situations of countries. From the webpage of the Ministry of Foreign Affairs, companies can watch safety issues of different countries. Sometimes certain areas of the countries can be dangerous and sometimes it is forbidden to travel to a certain country.

6.4 Comparison of the case companies

As the research results indicate, the IHRM of different SMEs varies a lot because companies have different kinds of ways to handle HR issues. This is due to the firm size

and the internationalization level because more stable firms have operated for a longer time internationally and they are larger, they have more possibilities to invest in HR. Thus there are more ways than one to manage IHRM in SMEs.

The most radical change in HR occurred in company D which had good and functioning HR processes before the merger, but after the merger HR processes stagnated. In all the other companies, internationalization did not affect so negatively HR as in the company D. Now when they are building the HR processes again, they were influenced by the USA, for instance, on rewarding. The influences on HR may have come from the US because of the merger and the larger size of the US business unit. Company A tries to have similar processes in Finland and the USA. The Finnish practices affect more in the USA than the other way around because the head office is in Finland. In this company the CEO was taking care of HR and financial issues alongside with her other duties.

Companies E and F are pretty similar companies, but company F has operated for a longer time and it is therefore able to invest more in HR than the company E. In company E, the recruitment takes a lot of time of the HR person and therefore they do not have the resources at the moment to do much more than what the law requires. In company F, they think it is important to find equal lines to manage HR. HR did not have such a huge role in company B and they also did not do much more as the law requires. Earlier they have had development discussions etc., but for some reason they quit those. Now they have planned to start the development discussions again and to try to invest more in HR. In this company, HR was more like supporting the CEO who makes the final decisions.

Company G has had a fulltime HR manager for only a couple of years even though the company has already operated several years. So the HR manager needed to start to build the HR processes first. Now they are trying to standardize all the HR processes in every country and they also try to provide similar possibilities for everyone which has been quite a challenge. Company H has pretty systematic HR processes in every site and they are currently balancing between localization and globalization decisions in regards to which issues come from the head office and which issues they can localize. They already have one local HR person in one of the foreign business units. Company C has understood the importance of global and local HR. It also has pretty systematic HR processes in the whole company and some parts of the processes are localized.

The case companies have also noticed that the ways of small companies in managing HR do not work anymore when the business grows, thus more formality and more similar tools are needed. It can be seen that the staffing approach of the companies is changing in the long run towards geocentric approach when the business becomes more stable and the corporate culture is internalized also in the foreign business units. In all of the internationalized companies it is important to think about HR at the global level, but at the same time to allow localization in order to do successful business everywhere. The table three gives a brief description of the HR of the case companies.

Table 5. Brief description of the IHRM of the case companies.

Case Company	Brief description of the HR
Company A	The company tries to have similar HR processes in Finland and the USA. Finland influences the USA more.
Company B	HR did not have such a huge role in the company but they were planning to invest more in HR.
Company C	The company has global and local HR which means that some parts of the global HR are localized so that HR processes can function in the local business units.
Company D	The company is building systematic HR processes after hard times. US practices have affected partly the Finnish ones.
Company E	HR does what the law requires and right now HR comes behind the business because the firm needs to stabilize its operations and to increase the sales.
Company F	It is a more stable company and it can invest more in HR. They try to build equal lines to manage HR.
Company G	The company tries to standardize all the HR processes in every country and provide same kinds of possibilities.
Company H	The company was balancing between localization and globalization and it has systematic HR processes.

7. CONCLUSIONS

The purpose of the study was to increase the understanding of international human resource management of small and medium sized enterprises, and to form a model of IHRM of SMEs because the field is poorly studied at the moment. Firstly, the answers of the research questions are explained. Secondly, the model of IHRM of SMEs is modified based on the research results. Finally, the reliability and validity of this study is evaluated, and the limitations of the study and further research suggestions are presented.

7.1 Answers to research questions

This research was conducted to answer the following research questions:

How does internationalization reflect to the HRM of SMEs?
- Which issues have affected the HRM of SMEs after the internationalization?
- How do these changes appear in HR?
- How has the HRM internationalized in relation to the internationalization of the overall business?

The main research question was to find out how internationalization is reflecting to HRM of SMEs. Internationalization has clearly an effect on human resource management of SMEs. When planning IHRM, companies need to take into account the different legal, local and cultural requirements of the countries. Thus the customs of the head office might not work everywhere, but localization is needed. There is also more than one way to manage IHRM in Finnish SMEs. Internationalization is reflecting in some way to every IHRM practice. When recruiting employees to internationalized small and medium sized enterprises, companies have to consider what kinds of talents are needed. Because of the small size, multitalented employees are needed. The internationalization of the business requires people to speak multiple languages and to have an understanding of different cultures or at least have to have a willingness to learn new cultures and languages. International recruitments also require time and knowledge about local markets because the legal requirements of the countries vary. When recruiting people abroad, Finnish HR needs to have some support. Thus headhunters and local recruitment firms are utilized because companies might not be familiar with

the local ways to recruit, and also because smaller companies are not that well-known at global markets. The internationalization also reflects to work orientation because sometimes it is very hard to get people from different countries into the community of the firm. Thus the companies need to pay a lot of attention how to internalize the values of the companies also to foreign business units. Because of the internationalization, the development needs in the companies are different than in purely domestic firms. There might be a need to educate people about different languages and in cultures in order for them to be able to do business also abroad. It is important to have an understanding of cultures and local customs because things do not work everywhere as in the home country. Especially in small growing firms, the roles of people change quickly, thus the responsibility of companies is to maintain the know-how of the employees at the right level.

Internationalization also has an effect on appraisal because it is challenging to observe that people are appraised in the same way in every business unit. Also, the cultural differences might affect as follows: for instance, in one of the companies they noticed that development discussions could not be organized in the same way because some issues might not work in other countries. Cultural influences can also be seen in rewarding because all the methods might not work everywhere. It is impossible to provide exactly the same kinds of benefits in every business unit because the legal requirements of the countries vary. When comparing rewarding, benefits and social differences, it is important to remember that the salary for the same work in another country cannot be the same as in Finland. Internationalization creates challenges especially for job well-being, health and safety because the legislation of the countries varies so much. For instance, the Finnish occupational health care is something exceptional which you cannot offer in other countries in the same way. Because of international operations, travelling has increased and it forces HR to find out whether or not it is safe to send someone to a specific country. In addition, they need to take care of the inoculation requirements of different countries. What is also important to remember when providing different well-being activities to personnel is that what works in Finland might not work in another country. Internationalization has also increased the mobility between different business units although in these companies most of the host-country nationals were hired with local contracts. However, in some companies expatriates are used, which naturally affects the workload of HR. They need to be more involved in expatriates' personal lives and organize, for instance, their housing arrangements. Obviously, the HR becomes more complex when firms internationalize because companies, for instance, need to have know-how of several legislations. It is

good to remember that in every HR issue it is important to take into account whether the HR issue could work in a local context. Even though companies have global HR, local requirements and customs need to be considered when planning HR.

The second and third research questions concerned the different factors that influence IHRM of SMEs, and how these factors affect HR. There are many factors that have an effect on international human resource management of SMEs. These factors can be divided into internal and external influence factors. Internal are those which come from inside the company and external those which come from outside the company. The internal influence factors that came up in the research interviews are communication, management, HR persons, business strategy, resources, corporate culture and values. The ways how HR issues are communicated affect naturally international human resource management of SMEs. Internationalization creates also challenges to communication because it cannot occur in the own mother tongue. Thus companies need to have clear ways to communicate and to use several channels in order to make sure that the message gets through. The management of the SMEs can influence IHRM because if they do not see HR issues important then it is very hard for the HR department to try to maintain functioning HR practices. Management might also affect decisions which are made in HR. The influence of the management on HR can be either positive or negative depending on their opinion of HR issues. In the situation where HR does not get any support from the management, HR persons cannot really do much, whereas in the situation where the management is supporting HR persons, they have the chance to promote HR issues. The business strategy dictates the direction of HR. For instance, a strong growth and internationalization strategy drives HR to look for employees who are interested to work internationally and to grow. The resources of the firm influence whether or not it is possible to invest in HR. If there is a resource lack in the firm, it naturally affects negatively HR, whereas in the situation where HR has enough resources, the effects are positive. The corporate culture and values can also influence IHRM. For instance, in the company where caring and well-being are highly valued, HR is able to invest more in well-being of employees. The effect is naturally dependent on the specific corporate culture and values.

The external influence factors that came up in the research are language, legislations of countries, cultures and customs, local conditions and geographical location. The corporate language has to be English when companies internationalize, thus this means for HR that they need to produce all the documents in English if they earlier had them in Finnish. Legislations of the countries have a strong effect on IHRM because these

dictate how HR issues are handled in each country. This forces HR to get to know the different legislations of the countries where they are operating or to try to get some support in the foreign countries. This is one of the reasons why localization is needed in HR. Another reason is the differences in cultures and customs. Things do not work in the same way in every country, thus it is important to localize some parts of the HR. Usually when operating internationally, the best way is to make HR issues as simple as possible in order for people from different backgrounds to understand them in the same way. Internationalization has also increased travelling in the companies, thus HR needs to take care of the inoculation requirements and they need to be aware of the political situations and local conditions of the countries. Companies have to consider whether it is safe to send someone to a specific country, for instance, as an expatriate. Geographical locations of the foreign business units create time differences. This requires employees to be flexible in order to be able to communicate with colleagues at the same time.

The last question concerned how HRM has internationalized in relation to the internationalization of the overall business. According to the research results, it is important to take HR issues into account already at the start of the internationalization. Actually it would be good to build the whole business in a way that it can work anywhere, thus when, for instance, the corporate language is English, it does not prevent the company to hire international employees. In most of the case companies, there was no separate HR person at the beginning of the business, but someone in the firm was taking care of HR issues besides of his/her other tasks. Then later on when the company increased its international operations, a separate HR person was hired in many of the companies. The most important thing at the beginning of the internationalization is to build the basic HR processes in order to support the internationalization of the firm from Finland. In small growing firms, the business usually moves and changes very fast because of the business needs. Thus HR has to be well prepared in order to be able to run the HR processes in different countries. This of course requires a lot of familiarization to different legal and cultural requirements of the countries. Therefore in internationalizing SMEs it is important to have a constant discussion with the business department so that HR can prepare by itself already in an early phase. It can be noticed that the ways of small firms do not work when international operations expand because the firms also grow at the same time, thus the formality of HRM and the similarity of the tools increase when the business grows. The increasing formality has also been recognized in other studies (e.g. Barret et al. 2007a; Storey et al. 2010). In chapter 3.4 the figure 5 was introduced which describes the connection of formality and staffing

approach to the internationalization process. This figure is also valid for the Finnish SMEs because when the companies' international operations expand, formality increases, and in the long term there is a need to recruit more international employees.

According to this research it can be stated that internationalization reflects in different ways to the international human resource management, and the effect is possible to notice from every IHRM practice. Internationalization of the companies makes HRM more complex because there is a need to take different legislations and cultures into account. SMEs also use IHRM practices very differently and there is no common way to manage HR issues. Different factors affect the international human resource management of SMEs, thus it is important to recognize those influence factors and try to turn the effect from negative into positive. International human resources need to be taken into account already at the beginning of the internationalization, and at first it is good to make sure that the company has basic HR processes in order for them to be able to support the business. Constant discussion with the business department helps HR to be aware of the changes in international business and prepares HR to support the business in the most effective way.

7.2 Completion of the model of IHRM of SMEs

In the theoretical part, SMEs were characterized as heterogeneous companies that use practices very differently with varying levels of informality and formality, and each of the firms operates in a unique context (Harney et al. 2006). This definition is also valid for the internationalized small and medium sized case companies. None of the firms was purely identical and some of their HR practices were more formal, whereas some more informal. Also the company size and the internationalization level affected the formality of the practices. These case companies had different ways to internationalize and different ways to manage HR issues. Thus it is important to remember that because this is a case study, these research results and the formulated model cannot be generalized because there were already a lot of variations between these case companies. But these can be used as a guiding principle when planning IHRM of SMEs. Next, the model which was formed in the chapter four is modified according to the empirical data, and the differences between the foundations of the literature and the empirical data are compared.
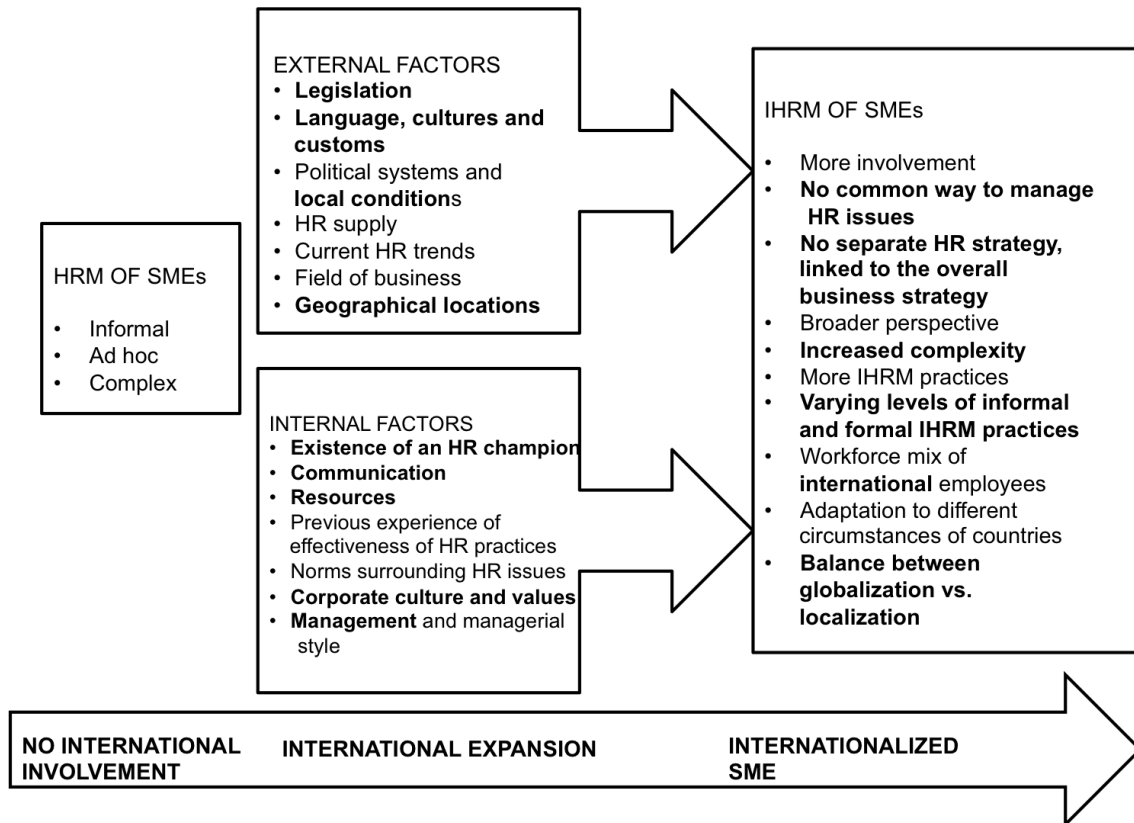
Figure 9. The modified model of IHRM of SMEs according to the empirical research.

The HRM in domestic SMEs could not have been researched in this study because these firms were already internationalized but it can be noticed that same kinds of characters also appear somehow in IHRM of SMEs. Legislation, language, cultures and customs, geographical location and local conditions were external factors that influence IHRM of Finnish SMEs. Legislation, cultures, language and geographical locations are also presented in the original model. Local conditions refer in a way to political systems because they also have an effect on safety issues of countries. HR supply, current HR trends and field of business were not mentioned in the interviews, but these were found in the literature. Communication, business strategy, corporate culture and values are internal factors which were not found in the literature, but interviewees stated these as influencing factors. Then again management, existence of HR champions and resources were found both in the literature and the research interviews. The norms surrounding HR issues refer partly to the management and corporate values because managers and corporate values affect whether companies view HR issues important. Previous experience of HR practices did not come up in the research interviews but it appears in

the literature. The external and internal factors in the model that came up in the research interviews are bolded.

In the box of IHRM of SMEs, the issues that were added/modified are bolded in the model, but many issues remain the same as they were stated in the literature. The changes were made in order to complement the model according to the empirical data. SMEs have different ways to manage HR issues and they normally do not have any separate HR strategy, but it is linked to the overall business strategy. The complexity of HRM increased after the internationalization because SMEs need to have knowledge of different legal systems and they need to take care of international workforce. The perspective of HR also broadened because HR department has to keep an eye on every direction where the company is operating. The formality and informality of the practices varied in the companies but it was possible to notice that larger SMEs were more able to run formal HR processes than the SMEs which were smaller and have not operated for such a long time. Internationalization has increased the number of IHRM practices in the firms which had expatriates because the departure and repatriation process require attention. The firms that had expatriates needed to be more involved in employees' personal lives in order to arrange their issues in the host country. In the long term international employees are needed in the whole company. Because the circumstances of different countries vary, HR needs to have a wide knowledge about different issues in order to adapt to local conditions of countries. The localization is essential because HR issues do not work in the same way in every country but local customs and cultures require attention. Thus in the long run it is important to have a balance between the globalized and localized HR.

7.3 Reliability, validity and limitations of the study and suggestions for further research

The dependability of every study should be evaluated no matter whether it is a qualitative or a quantitative study. The evaluation is usually done by using following terms: reliability and validity. (Hirsjärvi et al. 2007: 226). Reliability is concerned with the repeatability and consistency of the study. This means that other researchers can achieve the same results by using the same data collection techniques. In a case study, the reliability means the repeatability of the analysis part. High reliability is the goal in a research in order to avoid random results. It should be noticed that imperfect reliability might not destroy the research, but it is important to evaluate the measures

that have been used. With validity it is meant that the research measures exactly that what the research is supposed to measure. If there is no validity in the study, it is valueless because then the researcher has researched something else what he/she was supposed to measure. Reliability also affects validity, but a completely reliable study does not make the study valid. (Uusitalo 1991: 84–86).

Here are listed several ways which improve the reliability of this study. The research process needs to be described in detail in order to improve the reliability of the study (Hirsjärvi et al. 2007: 227). The description of this research process was done in the chapter five. Before the interviews, the interview questions were looked through by other persons in order to make sure that other people understand the questions in the same way as the researcher. In the interviews, a recorder was used because it ensures the accuracy of the interviews. This enables also that the researcher can concentrate only on the interview because he/she does not need to take notes. (Simmons 2009: 52). Only one interviewer was used because it reduces the ambiguity of the answers in comparison to situation where multiple interviewers are used (Hirsjärvi et al. 1995: 129–130). Even though unstructured interviews can be problematic relative to reliability, unstructured interviews however allow researching the complexity of the phenomenon which is important in qualitative studies. (Saunders et al. 2007: 319).

The validity of the study can also be improved in different ways. After the first interview, the questions asked in the interview were checked to ensure they meet the purpose of the study. It was also beneficial to prepare for the interview with several questions and with sufficient additional questions. (Hirsjärvi et al. 1995: 129). The history of the company can affect the research results (Saunders et al. 2009: 157). Thus the history has been taken into account because, for instance, the internationalization stage of the company might affect their human resource management. In order to increase the validity, the interviews were organized confidentially and interviewees have been appeared anonymously. This ensured that they gave answers that are based on reality. To improve the validity of this study more, the researcher tried to listen more than speak in the interview situation because then the possibility influencing the results decreased. In the interviews, only persons who are experts in their field were used, thus the validity of this study increases (Hirsjärvi et al. 2008: 189). A multiple case study also improved the validity because it was possible to make sure that the results of the first case are consistent with the results of the other cases (Yin 2003: 34).

As this study has been a case study it is good to remember that the research results cannot be generalized, but these research results offer knowledge how IHRM issues are managed in these specific companies. In order to get even more extensive research, more cases could have been used, but the time and the resources of this thesis were limited. Also more small sized enterprises could have been interviewed because this study included only one small sized company and the rest were medium sized companies. Case companies' fields of business could have been even more diverse because half of the companies were concentrated somehow on technology. This research offers only a perspective of Finnish small and medium sized enterprises which is combined with the findings of the existing literature. As one of the limitations can also be seen that there were not so much studies and literature about IHRM of SMEs, thus the theoretical part of the IHRM practices of SMEs is based mainly on one study.

The field of international human resource management of small and medium sized enterprises is very poorly studied at the moment; therefore the research possibilities are wide in this field. Because this is a case study research, further studies could be wider and larger in order to be able to generalize the research results. This study was focused to increase the understanding of the international human resource management of SMEs in general. It was found out how internationalization is reflected in IHRM, thus further studies could concentrate on some specific area of IHRM in order to get even deeper information about the issue. Also comparisons of IHRM of SMEs between the different countries could be done because this research was concentrating only on Finnish SMEs. Because the importance of SMEs is significant in most of the economies and international operations are very common nowadays, it is important to conduct more studies, both quantitative and qualitative, in the field of international human resource management of SMEs.

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Appendix 1. Research questions

1. Could you tell something about your background in this company?
2. What kinds of international operations do you have in your company?
3. How did the internationalization start?
4. Did you take HR issues into account already at the beginning of the internationalization? And how?
5. To which HR issues/practices did internationalization affect at first? And how?
6. To which other HR issues has internationalization affected and how?
   - Does an HR strategy exist in the company?
   - Recruitment
     - How does internationalization affect recruitment?
     - Do you recruit mostly expatriates or local people to the key positions abroad?
     - Is the direction changing?
     - Do you utilize now compared to earlier different recruitment channels?
   - Work orientation
     - How does the internationalization affect?
     - How is the process handled?
   - Development
     - How does the internationalization affect development?
     - Where do you have the need to develop because of the internationalization?
   - Appraisal
     - Do you have any common appraisal system in the company?
     - How does the internationalization affect appraisal?
   - Reward
     - How does the internationalization affect?
     - Do you think that people can be motivated in the same way?
   - Job well-being, health and safety
     - How does the internationalization affect?
     - What do you need to take into account in an international company?
   - Management of expatriates
     - Criterion
     - Communication during the assignment
   - Repatriation
   - Do you have any other HR practices that I did not mention?
7. Which HR issues did you need to change because of the internationalization?
8. Which factors inside of the company have affected IHRM? And how?
9. Which factors outside of the company have affected IHRM? And how?
10. What should be developed in the international human resources?