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HUMAN RESOURCE MANAGEMENT AND INTERNATIONAL NEW VENTURES FROM EMERGING MARKETS

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ABSTRACT

This paper examines the factors that encourage small entrepreneurial firms in emerging markets to invest in HRM practices as they internationalize. We show that when firms internationalize into either more economically developed countries or those countries with stronger employment regulations, they invest more in HRM practices. Moreover, firms led by CEOs with general management experience, who are concerned about meeting international standards, and who have built more extensive international partnerships will also invest more in HRM practices. Our findings, which are based on a sample of firms from India, China, and South Africa, suggest that internationalization of entrepreneurial firms into global markets spurs the development of HRM practices in emerging markets.

INTRODUCTION

Entrepreneurial firms face many of the same HRM issues as larger firms, but without the same training, resources or formalized policies to guide them. HRM in small firms is often ad hoc, and often a reflection of the backgrounds of founders and entrepreneurs (Cardon & Stevens, 2004; Mayson & Barrett, 2006). The challenges involved in developing human capital and managing HRM are typically much greater for entrepreneurial firms in emerging markets. Such firms often lack HRM expertise, established communities of practice, and the well developed human capital and managerial experience that makes implementation of these practices possible (Som, 2007). However, entrepreneurial firms that do invest in HRM have been shown to exhibit greater long-term employment growth and enhanced survival probabilities over time (Rauch, Frese & Uutsch, 2005; Sels, De Winne, Delmotte, Faems, & Forrier, 2006). In emerging markets, firms with better developed HRM systems use targeted recruiting and job advertising rather than word of mouth; structured interviewing and selection testing rather than referrals and personal contacts (Ryan, et al., 1997). They use formal rather than on-the-job training, market based pay, and performance evaluations (Keating & Olivares, 2007). They also pay greater attention to the selection and training of expatriates (Welch & Welch, 1997). At later stages, they are likely to implement integrated high performance work systems (Ciavarella, 2004; Ordiz-Fuertes & Fernandez-Sanchez, 2003). This paper examines the factors that encourage small entrepreneurial firms in emerging markets to invest in HRM practices as they internationalize.

We develop hypotheses on how HRM investments among internationalizing entrepreneurial firms in emerging markets are influenced by the economic development of their international markets, the regulatory regimes in place, and expectations related to the meeting of rigorous international standards. In addition, using arguments drawn from the upper echelons literature, we examine how the characteristics and backgrounds of founders are related to the willingness of firms to make such investments. Third, based on the organizational learning and absorptive
capacity literatures, we examine how the use of expatriates and networks of international partnerships impacts HRM investments.

We find that internationalization is associated with investment that entrepreneurial firms from emerging economies make in HRM practices. Investment in HRM depends on the labor regulations in countries where firms do business, the background of founders, and the number of international partnerships with other companies. From a managerial standpoint, our study suggests that the countries that entrepreneurial firms target for international expansion as well as the type of relationships formed overseas are likely to impact HRM at home. Firms that can compete in more developed markets with more stringent regulations and standards are likely to benefit from investments in HRM. This investment is facilitated by founders with previous general management experience and firms being involved in a larger number of international partnerships. Since most of the employees in firms we studied remain in their home countries within emerging markets, our results indicate potentially important implications for the voluntary transmission of employment norms across international boundaries.

**LITERATURE REVIEW AND RESEARCH HYPOTHESES**

HRM is important for entrepreneurial firms because of its relationship to business performance. Recent meta-analysis of research on the relationship between HRM practices and organizational performance finds that the operational and financial benefits of HRM practices are significant and robust for larger firms (Combs, Liu, Hall & Ketchen, 2006). While a great number of moderating conditions has been identified, studies have consistently demonstrated the positive impact of HRM across different types of businesses and for manufacturing in particular (Datta, et al., 2005). HRM practices including recruiting, selection and training increase firm human capital in terms of specific knowledge, skills, and abilities that translate into organizational capabilities. In addition, HRM creates the conditions for employees to apply those skills through employee involvement and empowerment. Finally, HRM motivates employees through goal setting and appropriate incentive mechanisms (Combs, et al, 2006).

While most of the work on HRM and performance focuses on large firms in the U.S. and Europe, a number of recent studies extend this work to small entrepreneurial firms. There is some evidence that the early approaches that small firms take to HRM and the extent to which they invest in practices and people have long-term impacts on organizational growth and survival. For example, Chandler and McEvoy (2000), found positive effects for HRM in small firms that implemented TQM practices. They looked at 66 small manufacturing firms and concluded that training and incentive pay in particular moderated the impact of TQM on firm earnings. In more recent work, Rauch, Frese and Utsch (2005) examined 119 small firms in Germany and found that investment in employee development and involvement were directly related to employment growth over time. Hayton (2004) found HRM to be positively related organizational leaning and performance in 99 U.S. SMEs and De Grip and Sieben (2004) found a positive relationship between HRM and employee productivity in a study of Dutch pharmacies. The strongest evidence is provided by Sels and colleagues (2006), who collected data from 416 small companies in Belgium and Luxembourg. They measured HRM intensity that included selection, performance management, training, compensation, internal promotion, and employee participation. They found that HRM reduced voluntary turnover and had a positive relationship with employee productivity and firm profitability in firms with less than 100 employees.

HRM also plays an important role in internationalization, though its effects have been largely overlooked by researchers particularly in the context of small firms in emerging markets. Studies
(e.g., Gomez-Mejia, 1988; Wright, Snell & Dyer, 2005) have largely focused on the HRM issues in large multinationals and indicate that superior HRM can be a sustained source of high productivity and competitive advantage in multinational enterprises, Colman (2002) observed that human resource management was one of weakest capabilities in most multinationals, suggesting that improvements in the effectiveness of international HRM practices may have substantial performance benefits.

**Research Hypotheses**

Internationalization provides both challenges and opportunities for entrepreneurial firms. This is particularly true in the context of firms in emerging economies. Entrepreneurial firms from such economies doing business in international markets recognize that they need to adapt their operations and make the necessary investments that will make them internationally competitive. As such, we can expect internationalization to result in added investments in HRM. We predict that three primary mechanisms drive such investments. First, the extent of investment in HRM practices by firms in emerging markets will depend on the countries where they do business and the requirements of competing successfully in those markets. In other words, investments in HRM are driven by the external pressures of competing in more developed markets, complying with international employment laws, and meeting international standards for quality, speed, and professionalism. Second, the extent of HRM investment in response to internationalization is likely to be a function of the characteristics of the founding manager. These individuals play a pivotal decision making role in small, entrepreneurial firms and we can expect their backgrounds and experiences to influence the level of investments in HRM made by their firms in response to needs posed by internationalization. Finally, internationalization can be expected to drive changes in HRM practices by creating opportunities to learn about HRM practice in other counties and other firms.

**Host Country Development and Labor Regulation.** Scholars have argued that a firm’s investment in human capital and HRM practices represents an important source of competitive advantage (Barney & Wright, 1998; Datta et al., 2005; Wright & McMahan, 1992). This also suggests that entrepreneurial firms are likely to implement the HRM practices that their competitors are using successfully. In fact, there are strong theoretical reasons to argue that firms will adopt innovative HRM practices to improve performance, maintain legitimacy with their competitors (Subramony, 2006), or simply because everyone else seems to be investing in similar practices (Gibson & Tesone, 2001). These competitive and institutional pressures are even more likely to apply for emerging market companies who compete internationally.

We argue that entrepreneurial firms in emerging markets will invest in HRM based on the characteristics of countries they target for international business. First, doing business in countries that are more economically developed is likely to spur investment in HRM for several reasons. Developed economies are characterized by greater competition and customers with high expectations for product quality and prices. Doing business in such countries also exposes small firms from emerging markets to competitors with well-developed HRM systems and dedicated HR staff that provide positive models for replication. Second, doing business in countries with different employment regulations requires firms to invest in HRM to navigate local HR related laws. Finally, the degree to which firms have to meet international standards for such things as manufacturing processes, quality, and environmental health and safety requires that internationalizing firms in emerging markets are likely to be more keen in developing employees with new skills and expertise in these areas. In sum:
Hypothesis 1: Entrepreneurial firms in emerging markets whose internationalization involves economically developed countries will invest more in HRM practices than those internationalizing to less developed countries.

Hypothesis 2: Entrepreneurial firms in emerging markets whose internationalization involves countries with stronger employment regulations will invest more in HRM practices than those internationalizing to countries with weaker employment regulations.

Hypothesis 3: Entrepreneurial firms in emerging markets concerned about meeting international standards will invest more in HRM practices than less concerned about meeting such standards.

Founder Characteristics. Research on small and medium sized enterprises suggests that management practices and internationalization are related to the characteristics of the founder (Ruzzier, Antoncic, Hisrich, & Konecnik, 2007). Their background and experiences are likely to have important implications for firm decision making processes and performance (Stone, 1998). The way in which an entrepreneurial firm responds to internationalization is likely to be related to founder characteristics. Formalization of HRM policies should follow growth and internationalization, but requires recognition and support from the founder (Ordiz-Fuertes & Fernandez-Sanchez, 2003; Rauch, et al., 2005). This requires some knowledge of the importance and benefits of HRM as well as the awareness of the gap between the types of practices used in the firm and the types used by firms that the founder desires to emulate. Finally, founders must be willing to hire HRM expertise and provide and allocate the necessary resources towards the establishment of HRM systems (Mayson & Barrett, 2006).

The upper echelons literature (Hambrick & Mason, 1984) highlights the relationships between managerial background experiences and decision making. Managers tend to interpret issues in ways that reflect their background experience. This research suggests that backgrounds and experiences are an important indicator of the cognitive orientation and the knowledge base that managers bring to their jobs, which, in turn, influence their perceptions on what they see as being important in achieving competitive advantage. The study by Thomas, Litschert and Ramaswamy (1991) indicates that managers who have backgrounds in operations, accounting and/or process R&D possess a control and efficiency orientation, while those with functional background in marketing, sales and product R&D generally exhibit a preference for new products, new markets, and new opportunities. In other words, managers are more likely to see greater value in investments that fit their backgrounds. There is also a growing recognition in the international management literature that managerial mindsets and experiential knowledge influence strategic choices made by internationalizing firms (Herrmann and Datta, 2006). In addition, the process models of internationalization (Johanson & Vahlne, 1977) also highlight how the experiential knowledge of top managers is central to international investments.

Significant variability exists in the backgrounds of founders of SMEs in emerging markets. While some are functionally specialized, having spent a majority of their careers in one primary functional area (e.g., engineering/manufacturing, marketing or perhaps finance), others have more general management experience with exposure to multiple areas and a larger breadth of perspectives. We argue that SME founders in emerging markets with a general management background are more likely to possess the cognitive orientation and values that predisposes them to make HRM investments to respond to the needs of their foreign markets. Those with extensive general management experience would have developed the general management and administrative skills which provide a foundation for the management of human capital within an
organization. Moreover, it can be argued that founders with general management backgrounds are more likely to recognize that modern HRM practices can be the source of sustained high productivity and competitive advantage in foreign markets and are more likely to facilitate investments in the HRM function. Therefore,

**Hypothesis 4:** Entrepreneurial firms in emerging markets whose founders have general management background will invest more in HRM than those with founders who do not have such a background.

The international experience of founders is also likely to impact the willingness of firms to invest in HRM following internationalization. The relationship between the international experience of top managers and firm behavior has received a great deal of attention in the international management literature. Studies have associated such experience with increased confidence in international markets (Kedia & Mukherjee, 1999), greater international diversification (Herrmann & Datta, 2005) and enhanced organizational effectiveness in such markets (Tihanyi, Johnson, Hoskisson & Hitt, 2000). SMEs in emerging markets seeking to internationalize are confronted by considerable uncertainty in understanding foreign markets, regulations, and international standards. The international experience of founders should contribute to the reduction of such uncertainty. In addition, international experience can facilitate the accumulation of cultural knowledge and the development of a “global mindset” that leads in greater confidence in foreign environments (Tung & Miller, 1990) and effective handling of challenges posed by global competition.

Several potential benefits can be associated with founder international experience. Studies (e.g. Daily, Certo, & Dalton, 2000; Tihanyi et al., 2000) indicate that top management international experience has an important influence on a firm’s effectiveness in international markets. In particular, knowledge of and experience in foreign markets should provide SME founders with a more complete understanding of how business practices in general and HRM practices in particular contribute to the achievement of internationalization goals. Founders of emerging market SMEs with significant international experience can be expected to have accumulated knowledge of foreign cultures and foreign business practices and are more likely to make the HRM investments needed to ensure that their own practices are reflective of those prevailing in key overseas markets. They are also likely to value the role of HRM function and appreciate the importance of shaping their HRM practices in a manner that is consistent with the expectations and demands of their key buyer markets. In sum:

**Hypothesis 5:** Entrepreneurial firms in emerging markets whose founders have international experience will invest more in HRM than firms whose founders do not have such experience.

**Opportunities for HRM Knowledge Transfer.** While multiple motives underlie firms’ desire to engage in international partnerships, inter-organizational learning represents one of the most important reasons for doing so (Hamel, 1991; Parkhe, 1991). Firms with international partnerships can achieve competitive advantage by internalizing and adapting partner skills and capabilities. The number of foreign partnerships can also be viewed as an indicator of the firm’s network embeddedness. Scholars (e.g., Granovetter, 1992; Gulati, 1998; McEvily & Zaheer, 1999) see such embeddedness as an important factor influencing firm capabilities and performance outcomes, with closely tied firms more likely to develop a shared understanding of the value of organizational actions and behaviors (Coleman, Katz & Menzel, 1996).
Internationalization provides entrepreneurial firms with learning opportunities that are likely to spur investment in HRM. Perhaps, the most important mechanisms for transferring knowledge of effective HRM practices across national boundaries are international networks with other firms (Yan, 2003), and the use of expatriates (Hocking, Brown & Harzing, 2007). Through their relations with international partners, firms absorb new knowledge pertaining to HRM practices, which can then be applied in their own organizations. The same is true for expatriate employees who transfer business practices when they return (Vance & Paik, 2005). In the context of SMEs in emerging markets, those with a greater number of international partnerships and expatriates can be expected to make significant investments in HRM practices because such partnerships enable them to learn and internalize best practices. In other words, existing partnerships enhance the absorptive capacity of firms.

The absorptive capacity of firms, or the ability to assimilate new knowledge, is greater when new knowledge is related to firms’ existing knowledge structures (Cohen & Levinthal, 1990). Thus, firms that have a larger stock of existing knowledge from existing partnerships and expatriate employees can be expected to internalize and adapt partner capabilities more quickly than those without preexisting knowledge (Petersen, Welch, & Liesch, 2002). Indeed, empirical research has been largely supportive of the notion that new knowledge is more easily absorbed when it overlaps with existing knowledge (e.g., Ahuja & Katila, 2001). In the context of internationalization by SMEs in emerging economies, arguments related to absorptive capacity suggests that foreign market knowledge, including those related to HRM practices, accumulated by organizations through existing partnerships and expatriates, will influence their subsequent learning. In other words, we can reasonably argue that firms with a greater number of partnerships and expatriates (and, therefore, with a greater stock of knowledge related to HRM practices in other countries) will be in a superior position to absorb additional knowledge related to desired HRM practices and make the necessary investments. In other words,

Hypothesis 6: Entrepreneurial firms in emerging markets who send expatriates abroad will invest more in HRM than those which do not.

Hypothesis 7: Entrepreneurial firms in emerging markets with a higher number of foreign partnerships will invest more in HRM practices than those with fewer foreign partnerships.

METHOD

Sample and Data Collection

We collected a unique sample of 171 independent new ventures in three countries: China, India, and South Africa. The data were collected between November of 2002 and May of 2003 in India and South Africa and between September and December of 2003 in China. Our sampling criteria required firms to be an independent new venture, to be under ten years of age, and to have current international sales. These firms, on average, entered international markets two years after founding and derive nearly 48% of their revenue from international sales. Consistent with early internationalization of entrepreneurial firms, 84% of the ventures in our sample either exported directly or used intermediaries. 58% of the firms are in knowledge intensive industries (ITC hardware, software, pharmaceuticals).

After screening firms from secondary sources, we contacted firms by telephone to identify whether or not they met our criteria. Those firms that fit the sampling criteria were administered the survey in person. Such a thorough method of constructing the sampling frame is superior to
convenience or snowball samples, which are common in emerging markets strategy research (Hitt, Boyd & Li, 2004). We identified a total of 610 entrepreneurial firms in China that satisfied the sampling criteria, and while 144 firms initially agreed to be surveyed, we eventually were able to obtain a total of 92 surveys. In India, the surveys were collected in Bangalore, Mumbai, Chennai, Hyderabad, Ahmedabad, New Delhi, and Calcutta using lists of firms obtained from the Exporters Association Directory, Federation of Commerce Directories, and industry directories. We identified 593 firms that met the sampling criteria. 166 agreed to participate and we obtained 140 usable surveys. Finally, in South Africa, data were collected in the Western Cape Area using lists of firms from the Wesgro Exporter Database, City of Cape Town Exporters, and the Cape Town Chamber of Commerce directories. The sampling criteria yielded 219 firms and while 103 agreed to be interviewed, we obtained 76 surveys. In general, response rates in this study are certainly within acceptable norms for surveys from emerging markets (Aulakh, Kotabe & Teegen, 2000). We matched firms across countries by industry. After accounting for missing values, we had a usable sample of 171 firms: 79 Chinese, 52 Indian, and 40 South African.

Measures

Dependent Variable. To assess the extent of investment by entrepreneurial firms from emerging markets in HRM practices as a result of internationalization, we developed an index of six common HRM practices: recruitment, hiring, training, development, compensation, motivation of employees consistent with a configurational approach to measuring HRM (Delery & Doty, 1996; Guest, 1997). Respondents were asked, “To what degree has your company invested in the following to meet the demands of international customers?” with a five-point response scale from “not at all” to “very aggressively”. A principal component analysis showed that the six item index loaded on one factor with an eigenvalue of 3.59 and with individual factor loadings between 0.63 and 0.85.

Predictor Variables. We hypothesized that the host country’s level of economic development, employment regulation, and international standard will affect the extent to which firms from emerging markets would invest in HRM practices. We operationalized the host country’s level of economic development using the World Bank’s classification of countries based on their income levels and membership in the Organization for Economic Co-operation and Development (OECD). We dichotomized this variable into host countries that are considered high income by the World Banks and are members of the OECD (1) versus those that are not (0). Host country’s level of employment regulation was operationalized using the approach used by Botero, Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2004). We focused on the Index of Employment Laws within which Botero et al., (2004) evaluated the measures of employment laws with measures the protection of labor and employment laws that are an average of: (1) alternative employment contracts; (2) cost of increasing hours worked; (3) cost of firing workers; and (4) dismissal procedures.” In addition to the environmental measures of economic development and labor regulation, we added a self-reported measure wherein respondents indicated their firm’s ability to meet international standards before internationalizing using a 5-point Likert type scale.

In addition, we captured both the prior general management and international experience of the founder with two dummy variables where ‘1’ represents founders with general management experience as opposed to functional experience (coded as ‘0’). Likewise, founder’s prior international experience is coded as ‘1’ and its absence as ‘0’. Use of expatriates was coded as ‘1’ to reflect their presence and ‘0’ otherwise. Although it would have been preferable to measure the magnitude of expatriate deployment, the data was heavily skewed with 64% of firms sending no expatriates. Finally, the number of international partnerships reported by respondents averaged
slightly less than 4 per firm.

Control Variables. We employed several controls in our study. First, we controlled for country effects associated with the new venture’s country of origin with two dummy variables, one for China and one for South Africa. In addition, we controlled for initial employment, measured at the end of the first year of operation, and for overall growth in employment from the end of the first year of operation. In both cases we used the natural logarithm to control for data skewness. We controlled for industry variation with a dummy variable where knowledge intensive industries (e.g., information telecommunications hardware, software products, biotech and pharmaceuticals, information technology services, and management services) are coded as ‘1’ and traditional manufacturing (e.g., machinery and equipment and traditional chemicals) as ‘0’. We also controlled for the number of domestic partnerships that firms have as a measure of their domestic embeddedness. In addition, we operationalized the degree of internationalization in terms of two measures: time since international entry (Luo, 1999) and international diversification measured as international sales as a percent of total sales (Calof & Viviers, 1995).

ANALYSES AND RESULTS

Table 1 shows the means, standard deviations, and the correlations of study variables. We regressed the dependent variable on the control and independent variable and present the results in Table 2. The correlations between independent variables are relatively low, and VIF tests confirmed that multicollinearity is not a major concern. To assess common method bias, we used the single-component test suggested by Podsakoff and Organ (1986). Results indicate that common method variance is not a problem in our study.

We used robust regression to test our hypotheses. Ordinary Least Squares regression has been shown to perform poorly when used with cross-national data (Dietz, Frey & Kalof, 1987). For OLS to produce unbiased and efficient estimates, a range of assumptions must be met, including data normality. A number of the variables in our model suffer from skewness which persists after log transformations. Robust regression resists the pull of outliers and produces more efficient standard errors than would OLS for a similar regression. Model 1 in Table 2 represents the regression model that incorporates only the control variables. The model R-squared is 0.24. Three of the control variables are significant at least at p<.05. Model 2 in Table 2 tests our hypotheses. Overall, the model explains a notable proportion of variance for a survey-based cross-national study: the R-squared for the regression is .42. The change in R-squared between Models 1 and 2 is significant at p<.001.

Hypothesis 1 is supported at p<.05; i.e., entrepreneurial firms in emerging markets that internationalize to more developed countries invest more in HRM practices than firms which internationalize to less economically developed countries. Likewise, Hypothesis 2 is supported at p<.05. Internationalization involving countries with more stringent labor regulations is positively associated with investments in HRM practices. Hypothesis 3, which states that entrepreneurial firms in emerging markets that are concerned about meeting international standards will invest more in HRM practices, is also supported at p<.01.

Hypothesis 4 argues that entrepreneurial firms from emerging markets led by founders with general management background will invest more in HRM practices than firms whose CEOs have other functional experience. This hypothesis too is supported at p<.01. Hypothesis 5 regarding CEOs with international experience is, however, not supported. In other words, the international
experience of founders does not predict higher investment in HRM practices. In addition, hypothesis 6, which states that the use of expatriates will be related to investment in HRM, is not supported. Entrepreneurial firms from emerging markets that send expatriates abroad do not invest more in HRM practices than those firms which do not. Finally, hypothesis 7 is supported at p<.001, i.e., when entrepreneurial firms from emerging countries have more foreign partnerships, there is a greater propensity on their part to invest in HRM practices.

DISCUSSION AND CONCLUSIONS

We find that internationalization impacts the investment that entrepreneurial firms from the emerging economies of India, China, and South Africa make in HRM practices. More specifically, they depend on the countries where firms do business, the background of founders, and the number of international partnerships with other companies.

First, the stage of development and employment regulation of the country into which entrepreneurial firms internationalize influences such investments. Our results support our arguments that, when entrepreneurial firms from emerging economies seek international markets in more economically developed countries, they are much more likely to invest in HRM practices. We also observed that entrepreneurial firms in emerging economies were more inclined to invest in HRM when they internationalized into countries with more stringent employee regulations. Likewise, those entrepreneurial firms which were concerned about meeting international standards were more likely to make greater investments in HRM than firms that exhibited less concern. We attribute these findings to the competitive pressures of doing business in more developed countries as well as the need to navigate regulations and standards that vary around the world. Investment in HRM in this case may also reflect the desire on the part of firms in our sample to maintain legitimacy in the eyes of both their competitors and customers in foreign markets via the adoption of HRM practices that are deemed to be “world class.” This is especially true when their primary foreign markets are more economically developed or have more stringent employment regulation.

In addition, it is apparent from our results that the prevalence of stringent employee regulations even in other countries puts additional pressure on firms in emerging economies to invest in the HRM function and forces them to adapt their own practices to conform to those prevalent in the country of their trading partners. Potentially, this may reflect an effort on the part of firms in our sample to address possible concerns among their international customers related to lax HRM policies in emerging markets. Finally, as our results indicate, the willingness of emerging economy firms to invest in HRM is positively associated with the extent to which they feel they need to meet international standards in business practices.

Second, we find that the background of the founders impacts firms’ willingness to invest in HRM. As anticipated, we found that founders with general management experience were more inclined to invest in HRM in response to firm internationalization, but observed no such relationships with respect to their international experience. In other words, while we had expected founders with international experience to be more supportive of HRM investments in the internationalization process, our finding indicates that it is not the case, a result that we found somewhat surprising. One possible reason for the non-finding might be that while such experience might be a key factor in the decision of an entrepreneurial firm to expand its operations into international markets, internationally experienced founders recognize that investment in HRM (like all other investments) given resource constraints must be evaluated in the context of anticipated payoffs. Furthermore, while they might have an inherent desire to invest in HRM, international competition and customer expectations far outweigh such desire. In other words,
their decisions related to HRM investments are likely to be driven by external pressures rather than their own personal experiences.

Third, we find mixed results for our hypotheses regarding expatriates and international partnerships as drivers of investment in HRM. Surprisingly, we did not find a direct relationship between placing expatriates abroad and investment in HRM practices. However, our findings with respect to foreign partnerships do highlight the importance that network embeddedness and absorptive capacity have on decisions that entrepreneurial firms make about the level of investment in HRM practices. This suggests that firms in our sample are influenced by the context in which they are embedded, with firms that have close ties to foreign partners more likely to perceive the importance of HRM investments in achieving the desired goals in their international endeavors. The greater willingness to invest in HRM might also be a function of partnership related learning involving global HRM practices. When entrepreneurial firms from emerging economies have international partners, they are more likely to absorb new knowledge pertaining to HRM practices, and then seek to apply them in the context of their own organizations. Notably, we controlled for the firm’s domestic partnerships. Although the coefficient was weakly significant (p<.1), its sign is negative which further supports our arguments about the influence of network embeddedness on investment in HRM practices. Taken together, our findings suggest that further research should consider whether the learning mechanisms for entrepreneurial firms from emerging markets differ from those of established firms in that international partnerships may be substantially more influential than expatriate placements in spurring investment in HRM practices.

Conclusions and Implications

While our study provides interesting insights on the determinants of HRM investments among entrepreneurial firms in emerging economies, our findings should be interpreted in the context of study limitations. The first relates to the cross-sectional nature of the sample. Research on HRM practices in emerging markets remains sparse and opportunities for systematic longitudinal research have been few and far between. Second, as with most survey research, retrospective bias on the part of the respondents may be a problem; however, we relied on informed respondents and asked questions that called for their assessment of action not their recall of specific actions tied to calendar based events. A third limitation of our study has to do with possible survival selection bias from which many studies in management share. Third, we only had single respondents from each new venture, affecting the reliability of survey responses and creating the potential for idiosyncratic bias. Finally, while our research examines the extent of investments in HRM made in the context of internationalization, data limitations do not allow us to examine the specific nature of changes in individual practices associated with HRM.

The literature in international business suggests that internationalization is a major organizational change for firms in general and entrepreneurial firms in particular. Adaptation and survival in international markets requires significant changes to a firm’s policies and procedures of which HRM practices are a part. Clearly, future research ought to examine the micro foundations of how entrepreneurial firms in emerging markets modify their HRM practices in terms of specific changes to recruitment, training, development and compensation. Moreover, future studies should consider whether as the rates of internationalization increase, the HRM practices show evidence of greater convergence in such across countries. In undertaking this research our objective was to contribute to the growing literature on the role of HRM practices as entrepreneurial firms enter the global economy. From a research perspective, our examination of the role of environmental and organizational factors influencing the investments in HRM by entrepreneurial firms in the emerging economies of China, India and South Africa fills an important void in the previous
literature on international HRM and international entrepreneurship. Our results highlight the importance of international expansion in stimulating investment in HRM practices in emerging markets. Future research will have to determine if these investments translate into superior performance and survival of entrepreneurial firms from emerging markets over the long run. In sum, much work remains in identifying other organizational and contextual conditions that influence the HRM practices among internationalizing entrepreneurial firms, especially those located in key emerging markets. We hope this study informs and stimulates further work in this regard.

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### Table 1: Means and Correlations

| Variables                                         | Mean | SD   | 1    | 2    | 3    | 4    | 5    | 6    | 7    | 8    | 9    | 10   | 11   | 12   | 13   | 14   | 15   |
|---------------------------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Investment in HRM                                 | 3.58 | 0.97 |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| China                                             | 0.46 | 0.50 | 0.23 |      |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| South Africa                                      | 0.23 | 0.42 | 0.34 | -0.51|      |      |      |      |      |      |      |      |      |      |      |      |      |      |
| Initial employment                                | 28.93| 33.15| 0.26 | 0.38 | -0.46|      |      |      |      |      |      |      |      |      |      |      |      |      |
| Growth in employment                              | 0.24 | 0.30 | 0.18 | 0.16 | -0.08| -0.25|      |      |      |      |      |      |      |      |      |      |      |      |
| Knowledge industry                                | 0.58 | 0.49 | 0.01 | -0.15| 0.27 | -0.15| -0.02|      |      |      |      |      |      |      |      |      |      |      |
| Domestic partnerships                             | 4.80 | 9.80 | 0.02 | 0.26 | -0.03| -0.04| 0.09 | 0.10 |      |      |      |      |      |      |      |      |      |      |
| Time since international entry                    | 4.61 | 2.93 | 0.04 | 0.01 | -0.06| 0.29 | -0.29| -0.10| -0.17|      |      |      |      |      |      |      |      |      |
| International diversification                     | 47.64| 34.86| 0.10 | 0.20 | 0.09 | -0.01| 0.02 | 0.00 | 0.27 | 0.23 |      |      |      |      |      |      |      |      |
| Host country member of OECD                       | 0.79 | 0.41 | 0.10 | -0.07| 0.18 | -0.03| -0.05| 0.09 | 0.06 | 0.09 | 0.21 |      |      |      |      |      |      |      |
| Regulation of employment in host country          | 0.32 | 0.18 | 0.01 | -0.06| 0.10 | 0.04 | -0.07| 0.06 | -0.04| -0.06| -0.03| -0.13|      |      |      |      |      |      |
| Firm’s ability to meet international standards     | 3.77 | 1.14 | 0.14 | -0.24| 0.04 | 0.01 | 0.04 | -0.15| -0.14| 0.00 | 0.11 | -0.08| 0.03 |      |      |      |      |      |
| Founder general management background             | 0.25 | 0.44 | 0.08 | -0.10| 0.19 | 0.02 | -0.01| 0.05 | 0.15 | 0.09 | 0.06 | 0.03 | -0.06| 0.08 |      |      |      |      |
| Founder international experience                  | 0.58 | 0.49 | -0.03| -0.16| 0.05 | 0.01 | -0.09| 0.05 | 0.07 | 0.07 | 0.14 | -0.04| 0.04 | 0.03 |      |      |      |      |
| Expatriates abroad                                 | 0.36 | 0.48 | 0.00 | -0.19| 0.06 | 0.02 | 0.04 | 0.10 | 0.07 | 0.04 | 0.28 | 0.14 | -0.11| 0.06 | -0.06| 0.11 |      |
| Number of foreign partnerships                    | 3.82 | 7.87 | 0.14 | -0.03| 0.11 | -0.08| 0.12 | 0.22 | 0.48 | -0.20| 0.03 | 0.16 | -0.07| 0.01 | 0.09 | 0.03 | 0.24 |      |

N=171 r>.15 is significant at p<.05

*Means and standard deviations are for un-logged variables
Table 2: Robust Regression on Investment in HRM

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th></th>
<th>Model 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>SE</td>
<td>B</td>
<td>SE</td>
</tr>
<tr>
<td>China</td>
<td>-0.07</td>
<td>(0.16)</td>
<td>0.05</td>
<td>(0.16)</td>
</tr>
<tr>
<td>South Africa</td>
<td>-0.76</td>
<td>(0.19) ***</td>
<td>-1.04</td>
<td>(0.18) ***</td>
</tr>
<tr>
<td>Initial employment</td>
<td>0.15</td>
<td>0.07 *</td>
<td>0.12</td>
<td>(0.12) +</td>
</tr>
<tr>
<td>Growth in employment</td>
<td>0.96</td>
<td>0.40 *</td>
<td>0.73</td>
<td>(0.37) *</td>
</tr>
<tr>
<td>Knowledge industry</td>
<td>0.24</td>
<td>0.14 +</td>
<td>0.24</td>
<td>(0.13) +</td>
</tr>
<tr>
<td>Domestic partnerships</td>
<td>0.02</td>
<td>0.05</td>
<td>-0.11</td>
<td>(0.06) +</td>
</tr>
<tr>
<td>Time since international entry</td>
<td>-0.03</td>
<td>0.02</td>
<td>-0.03</td>
<td>(0.02)</td>
</tr>
<tr>
<td>International diversification</td>
<td>0.003</td>
<td>(0.002)</td>
<td>0.002</td>
<td>(0.002)</td>
</tr>
<tr>
<td>International diversification squared</td>
<td>0.0001</td>
<td>(0.00007) +</td>
<td>0.0001</td>
<td>(0.00007) *</td>
</tr>
<tr>
<td>Host country member of OECD</td>
<td>0.30</td>
<td>(0.15) *</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulation of employment in host country</td>
<td>0.26</td>
<td>(0.13) *</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm’s ability to meet international standards</td>
<td>0.13</td>
<td>(0.05) **</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder general management</td>
<td>0.44</td>
<td>(0.14) **</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder international experience</td>
<td>-0.01</td>
<td>(0.12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expatriates abroad</td>
<td>-0.09</td>
<td>(0.14)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of foreign partnerships</td>
<td>0.25</td>
<td>(0.08) ***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>3.33</td>
<td>0.18 ***</td>
<td>3.46</td>
<td>0.26 ***</td>
</tr>
</tbody>
</table>

Model F                              | 5.80 *** |       | 6.92 *** |       |
Model R-squared                      | 0.24    |       | 0.42    |       |
Model Adjusted R-squared             | 0.20    |       | 0.36    |       |
Change in R-squared                  |         |       | 0.18 *** |       |

N=171
+ p<.1; * p<.05; **p<.01; ***p<.001