Human Resource Management in Multinational Companies

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Introduction

Globalisation has provoked some interesting speculation on the part of enthusiasts about a 'globalised economy' in which distinct national economies are subsumed into region-states and companies follow the same set of 'best practices', adopt a convergent model of organisation that leads to a process of homogenisation in their behaviour and a deterioration of national management models (Rowley & Benson 2002; Bartlett & Goshal 1989). On the other hand, nationalists point out that, for the time being, the world economy is still fundamentally characterised by exchanges between relatively distinct national economies, in which many outcomes, such as the competitive performance of firms and sectors, are substantially determined by processes occurring at the national level (Harzing & Noorderhaven 2009; Rowley & Benson 2002). Far from being stateless, evidence suggests that MNCs remain primarily rooted to their country-of-origin's national business system (Ferner & Quintanilla 1998). Companies are under pressure to maximise the benefits of global co-ordination, while maintaining responsiveness to differences at a local, national or regional level. As a result, MNCs are faced with a 'think global', 'act local' paradox (Harzing & Noorderhaven 2009; Rowley & Benson 2002; Smale 2008).

The transfer of HRM policies and practices, as part of knowledge transfer, between organisational units is 'a process that covers several stages starting from identifying the knowledge to the actual process of transferring the knowledge to its final utilization by the receiving unit' (Minbaeva et al. 2003,p. 587). In the context of MNCs, organisational units are the headquarters and/or other subsidiaries in the corporation, while the receiving unit is the focal subsidiary. The transfer process can occur not only from the headquarters to subsidiary, from one subsidiary to another, but also from a subsidiary to the headquarters (reverse diffusion process).

Most literature on the transfer of MNC's HRM policies and practices adopts an assumption that superior IR/HRM practices is a significant actual or potential source of competitive advantage for foreign invested firms over indigenous firms. Drawing on the resource-based theory of the firm, Taylor et al. (1996) argued that HRM policies are transferred only when it is believed that the parent company's resources in the HRM areas provide MNCs with an important source of competitive advantage and are critical to the successful operation of their subsidiaries.

Even if it can be demonstrated that a particular set of HRM practices contributes significantly to superior performance in home country operations, a MNC has to determine whether it wishes to transfer these practices to their overseas subsidiaries. If MNCs decide that it is more profitable to leave subsidiaries to produce low- value added activities and view HRM strategies as relatively insignificant to profit maximisation, the transfer of home practices becomes unnecessary. MNCs may consider that the transfer of HRM policies and practices itself is not necessary for their successful operation, especially in some developing countries.

The transfer process

In this part, a framework is proposed which seeks to identify the different forces which have direct influences on the transfer of HRM and the configuration of MNCs' HRM policies and practices in their subsidiaries. It provides a systematic review of key forces of influence which determine the transfer of MNCs' HRM policies and practices to their overseas subsidiaries.

The country level

The literature has developed different approaches to analyse and explain how the major social institutions, historical evolution and culture of different nations can influence firm behaviour. The culturalist and institutionalist are two main broad strands of literature which have contributed significantly to the understanding of economic organisations' nature and behaviours. In the process of HRM transfer, there are two, or in some cases more than two, business systems involved, either as a home base or a host base for MNCs' operation. At the macro level, the process of transfer is dependent on the institutional and cultural difference between the two systems.

From the country of origin perspective, the variables are the institutional and cultural characteristics, the distinctiveness of national HRM models, and the dominance effect of the home system. There is strong evidence that the home country exerts a distinctive influence on the way labour is managed in MNCs (Hazing & Sorge 2003; Hazing & Noorderhaven 2006). Ferner (2000) argued that the parent company is embedded in an institutional environment located in the home country. To varying degrees, the particular features of the home country become an ingrained part of each MNC corporate identity and shape its international orientation as the general philosophy or approach taken by the parent company in the design of the HRM systems to be used in its overseas subsidiaries. Thus, 'ethnocentricity' and 'polycentrism' have been seen as traits characteristic of multinationals of different national origins. Thus, Japanese and American companies tend to be more ethnocentric than their European counterparts, other things such as sector of operation being equal' (Ferner 1994, p. 88).

From the host country perspective, there are host country effects on the shaping and implementation of HRM policies and practices in MNC subsidiaries. The variables consist of the nature of the host business system, its cultural characteristics and its relative power in relation with MNCs. The superiority/inferiority of the host system determines its relative openness or receptiveness to dominant 'best practice'. In a permissive/open host country environment, which poses fewer constraints on firms, the introduction of country of origin practices is easier (Whitley 1992). In contrast, MNCs may be prevented from transferring country-of-origin practices into a constraining/closed host country environment, which is highly regulated and distinctive (Whitley 1992). The subsidiaries can utilise their resources (expertise about local environment and market, specialist knowledge, culture, etc.) to block diffusion (Edwards et al. 1993).

The transfer of HRM policies and practices between two economies needs to be seen as part of the global economy. Smith and Meiksins (1995) argued that, 'countries can be slotted into [global] commodity chains relative to societal endowments, and have their comparative superiority and inferiority reinforced'. The *dominance effect'*(Elger & Smith 1994) or inferiority of a business system strongly determines what and how the HRM system is transferred from one business system to another. Elger and Smith (1994) argued that the dominance, largely in economic terms, of a home system itself is one mechanism of diffusion. Dominant states are more able to exert or invite dissemination and adoption of their version of capitalism in other national systems. 'Firms from strongly integrated and successful economies may carry over national character to subsidiaries when locating abroad, and transfer home country practices rather than adopt the practices encountered in the host country' (Smith & Meiksins 1995,p. 262). On the other hand, host countries can also be slotted into a relative position of power. A combination of internal strength and economic power determines a host country's *relative power position* towards MNCs (Vo 2004).

The industrial level

Porter (1990) stated that industries vary along a spectrum from multidomestic to global in their international competition. In global industries, a firm's competitive position in one country affects and is affected by competition in other countries, whereas in multidomestic industries, competition in each country is independent of competition in other countries. Foreign subsidiaries of MNCs in *multi-domestic* industries are relatively independent from the headquarters. They primarily rely on inputs from the local environment and are driven from local competition with different firms, including local ones. As they are usually more dependent on local resources, foreign subsidiaries in multidomestic industries have a relatively greater need to gain local legitimacy. Therefore, it is more likely that they adopt more of the features of the host country's firms and conform to the different cultural/institutional environment (Bartlett and Ghoshal 1989). As far as HRM is concerned, in the multidomestic industry the role of HRM is most likely to be more domestic and locally responsive, and less international in orientation (Schuler et al. 1993). Industries considered as traditionally multidomestic are retailing, commercial banking, insurance, distribution, consumer food product, branded packaged product, etc.

Foreign subsidiaries in *global industries* show a higher degree of interdependence with the headquarters and other subsidiaries of the MNC. Their production is an integrated and rationalised process to produce standardised products in a cost-effective way (Bartlett & Ghoshal 1989). Due to the need for integration and co-ordination, foreign subsidiaries in the global industry receive a high level of support from headquarters in terms of technology as well as managerial know-how. As far as HRM is concerned, the transmission of country-of-origin influence is more marked in MNCs operating in more global industries compared with multidomestic ones (Ferner 1997).

The organisational level

There are three factors that are the most cited organisational factors to affect the transfer of HRM practices, namely, international business strategy, administrative heritage and subsidiary's nature.

Firstly, *international business strategy* is a fundamental source of human resource contingencies, whose strategy shapes the strategic HRM practices of the firm (Beechler & Yang 1994). Schuler and Jackson (1987) argued that there are predictable relationships between business strategy and HRM policy choice. However, while some organisations may seek to include personnel issues in strategic decision making, HRM are often under-utilised within organisations in comparison with other strategic management areas such as finance, production and technology (Gunnigle & Moore 1994). In this case, HRM policies tend to be short-termed and are not designed to optimise the organisations' human resources.

Secondly, each firm has a body of *administrative heritage* that invisibly, but strongly shapes 'how things are done' (Bartlett & Ghoshal 1989). A company's administrative heritage is shaped by many factors, like its founder or strong leader's norms and values, the home-country culture and social systems and the internationalisation history of the firm. For example, research shows that top management beliefs about the strategic role of HRM and generalisability of firm's HRM competences has strong influences on the transfer of HRM practices overseas (Bae et al. 1998).

Thirdly, the *subsidiary's nature* including its function, age, size and ownership types contribute to determine its HRM policies. There is a tendency for HRM practices to become more standardised and formalised with time and that the bigger the company, the more likely that they develop a formal HRM function and the less it depends on the external labour market (Yuen & Kee 1993). Lastly, subsidiaries which are established through greenfield investments are more likely to adhere to their foreign parents operations than brownfield ones. This is because the introduction of foreign management practices to a newly established unit will encounter less resistance than a unit with on-going operations (Tayeb 1998).

HRM-specific level

A parent company might have functional focus on one or more HRM aspects that they wish to transfer as their critical capabilities to a subsidiary (Taylor et al. 1996). A firm's resources thus are focused on these functions, at the loss or negligence of other functions. In the same subsidiary, some management practices might closely follow the parent company ones, while others may more resemble those of the host country. As Rosenzweig and Nohria (1994) found in their research of MNCs' subsidiaries in the US, certain HRM practices such as wage rate, hours of work, retirement, holiday, or forms of job contract, etc. are more sensitive to local regulations. They are highly subject to local institutional arrangements; therefore, less likely to be affected by the parent country practices. Other aspects of HRM are less subject to local regulation, such as salary structure, promotion, job design, etc.; therefore, they can be transferred more easily.

The interaction of different forces in the shaping and implementation of MNC subsidiaries' HRM policies and practices

The profile of HRM policies and practices in a MNC subsidiary is shaped by the interplay of parallel or opposing forces, namely, home country, host country, industrial and organisational effects, for internal consistency or isomorphism with the local environment (Figure 1). Each HRM practice is the result of interaction among various forces of influence, and their relative weight in relation to other forces. Some HRM practices may be more sensitive to pressures of local adaptation, while others may be more prone to internal consistency.

Moreover, a force of influence is not fixed; on the contrary, it is changeable. For example, the host country effect can be altered significantly with the issue or amendment of a critical piece of legislation which directly affects one or more HRM issues; or, the level of industrial effect can be varied due to changes in the host country's macro-industrial policies. When one force of influence changes, the relative weight of the different forces in their interaction changes, the existing nature of HRM may be altered, or replaced by a new configuration. This process can affect one or more particular HRM practices.

The reception process

Taylor et al. (1996) asserted that business system differences, including cultural distance and institutional distance, are the most important constraints on 'context generalisability' of HRM practices. Kostova and Zaheer (1999) argued that each subsidiary of the MNC is faced with the task of establishing and maintaining both external legitimacy in its host environment and internal legitimacy within the MNC. Where an organisation is pressured to change in order to conform to the headquarters' expectations, they must determine which policies and practices to adopt, and to what extent, in order to best balance the local response with the central coordination needs of the parent.

Integration: The subsidiaries accept and integrate HRM policies and practices from headquarters without resistance and adjustment. In this case, the subsidiary seeks internal legitimacy within the MNCs.

Adaptation: As suggested by institutional theorists, organisations may achieve legitimacy by becoming 'isomorphic' with the institutional environment (DiMaggio & Powell 1991). Given the multiplicity and variety of institutional environments, achieving legitimacy through isomorphism becomes a difficult task. However, MNCs manage to achieve legitimacy in seemingly conflicted multiple institutional environments; they do not necessarily adapt to the local environments, but, rather, manage their legitimacy through negotiation processes with their multiple environments (Kostova & Zaheer 1999, Doz & Prahalad 1984). Adaptation to secure local modification of centrally imposed policies is the result of these processes. Almost all empirical studies that look at the cross-border transfer of HRM come to the conclusion that a certain amount of change is always necessary to successfully implement a HRM system developed in the home business system.

Resistance: The degree of central control and subsidiary autonomy is not determined in a mechanical way by headquarters, but emerges out of a process of negotiation between HQ and subsidiary (Ferner et al. 2001). Institutional constraints and opportunities within the host business system provide the leverage that subsidiaries may use to resist centralisation and refrain from implementing t transferred policies.

Conclusion

There is no clear-cut HRM strategy for MNC subsidiaries. Perlmutter's typology (1969) of MNC's ethnocentric/polycentric/geocentric/regiocentric strategy does not give an accurate or sufficient explanation of the nature of HRM practices in MNC subsidiaries. In fact, MNCs are more likely to use a hybrid strategy, and, as Tayeb (1998) put it, decide on a strategy that fits best with each subsidiary's local conditions. Regarding their international HRM approach, a company that has subsidiaries in many countries may opt for an adaptive strategy for one or some of them and an exportive or an integrative one for others (Taylor et al. 1996). Furthermore, a subsidiary's HRM function is composed of related, yet differentiated areas, within which there are a range of HRM practices (Ghoshal & Nohria 1989; Rosenzweig & Nohria 1994). Each HRM practice is the result of interaction among various forces of influence, and their relative weight in relation to other forces. Some HRM practices may be more sensitive to pressures of local adaptation, while others may be more prone to internal consistency. A force of influence is not fixed; on the contrary, it is changeable. It is, therefore, essential that the interaction of different forces and the nature of HRM in MNCs' transfer of HRM and their practices at subsidiaries should be attached to the notion of 'dynamism' and 'open to change'.

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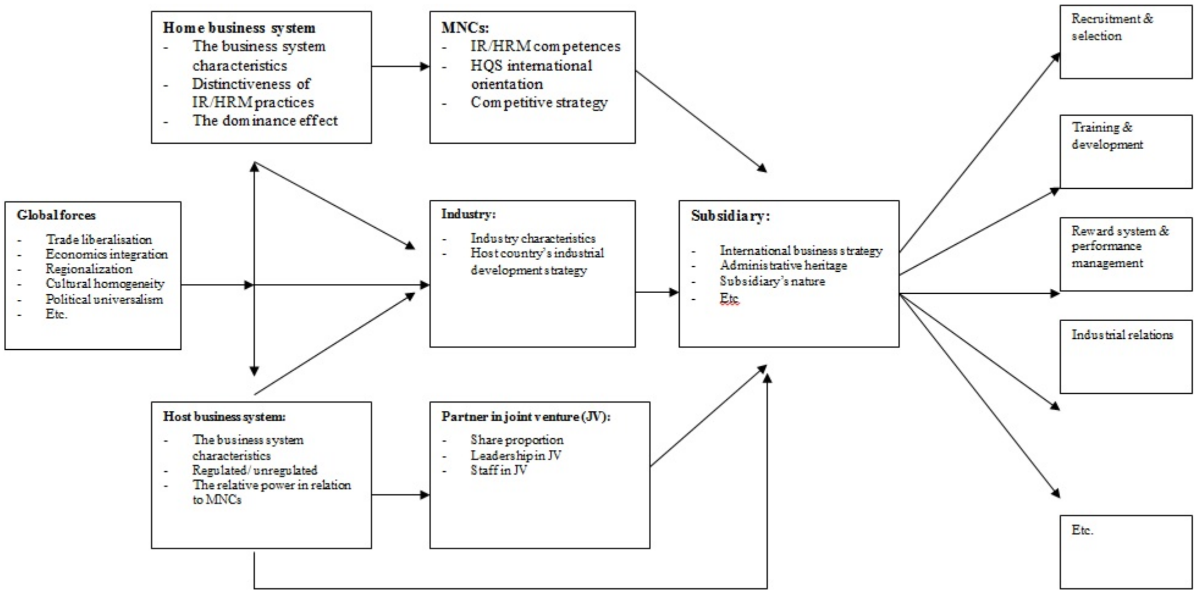

Figure 1. The interaction of different forces in the shaping and implementation of MNC subsidiaries' HRM policies and practices

Note: Partner in joint venture might not present in the case of wholly invested companies.