

CULTURAL IMPLICATIONS OF TRANSFER OF HUMAN RESOURCE PRACTICES IN MULTI-NATIONAL COMPANIES ESTABLISHED IN EMERGING ECONOMIES

Daleep Parimoo* Fehmina Khalique**

*School of Business Studies, Sharda University, Greater Noida, U.P

E-mail: daleep.parimoo@sharda.ac.in

** Sharda University and Global Institute of Information Technology, Greater Noida, U.P

E-mail: fehminas@hotmail.com

ABSTRACT

With the advent of globalization and liberalization, the emerging economies like China and India have grown manifolds. The mushrooming of MNCs is taking place at a very fast pace. The role of HRM in these companies has shifted from being a mere administrative to strategic one. The companies have realized that HR policies form the framework for culture in the business management and human assets are an emerging source of competitive advantage for them. Therefore National culture plays an important role in absorbing the HR practices from the MNC headquarters to Host country subsidiary. This paper examines the prospects available for the growth of MNCs in emerging economies and the role of HRM in these companies. It will also examine various HR practices which can be transferred, whether the subsidiaries follow the HQ practices or adopt the local ones. This area of research has been left unexplored by the researchers and therefore an attempt has been made to define the emerging economies, the growing size of MNCs, the reasons of transfer of HRM practices and the impact of transfer on organisational culture of the host country.

Key words: International HRM, subsidiary, MNC, HRM practices, culture.

INTRODUCTION

MNCs: Entry and Proliferation in Emerging Economies and India

A multi-national corporation (MNC) has been defined as one which has its producing and trading activities in a number of countries, and which has a central organization regulating activities of its units, across national frontiers, with specific global objectives. The International Labour Organization (ILO) has defined an MNC as a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries. A host country is an independent nation state where an MNC has established its business operations through either subsidiaries or branches and affiliates.

Some MNCs are humungous in nature, with revenues that exceed certain countries' gross domestic product (GDP). Multinational corporations can have a powerful influence in local economies, and even the world economy. They play an important role in international relations and globalization. The United Nations has justly described these corporations as "the productive core of the globalizing world economy." Their 250,000 foreign affiliates account for most of the world's

industrial capacity, technological knowledge, international financial transactions, and ultimately the power of control. For example, the combined revenues of just General Motors and Ford — the two largest automobile corporations in the world — exceed the combined GDP for all of sub-Saharan Africa. The combined sales of Mitsubishi, Mitsui, ITOCHU, Sumitomo, Marubeni, and Nissho Iwai, Japan's top six Sogo Soshu or trading companies, are nearly equivalent to the combined GDP of all of South America. Overall, fifty-one of the largest one-hundred economies in the world are corporations.

It might be added that MNCs proffer several analytical and business advantages, prominent among which are: Some of the MNCs are the largest economies in the world (OECD, 2006); Second, they constitute the leading economies which dominate the world markets; Third, free-market economic conditions render transfer of management practices in Indian subsidiaries relatively difficult; Fourth, according to Smith & Meiksins (1995), the USA and European companies are frequently referred to as role model, "as it provides 'best practice' ideals from which other societies can borrow and learn".

There are several reasons because of which MNCs are coming down to India and establishing their subsidiaries. India has got a large market. It is one of the fastest growing economies in the world. Besides, the government policy towards 'foreign direct investment' (FDI) has played a major role in attracting MNCs to India. Apart from FDI policies, the labour competitive market, market competition and the macro-economic stability are some of the key factors that magnetize MNCs to set up subsidiaries in India.

Emerging Economies are those regions of the world that are experiencing rapid

informationalization under conditions of limited or partial industrialization. According to (OECD, 2009) the rapid integration into world markets by six of the largest non-OECD economies (Brazil, Russia, India, Indonesia, China and South Africa, together known as the BRIICS) was an important component of globalisation during the past two decades. In recent decades, all of the BRIICS have opened their economies significantly and improved their connectedness to world trade networks. The substantial reduction of trade barriers at the border can be seen. Dispersion of tariffs also fell, contributing to a further reduction in economic distortion. Brazil started off with high walls of protection as part of import-substituting policies that lasted for half a century. These were reduced significantly in the late 1980s and mid 1990s. Tariffs in Indonesia and South Africa were generally lower than those in other BRIICS during this period, but these countries also moved to reduce their tariffs considerably in the mid-to-late-1990s as a result of unilateral liberalisation efforts and commitments agreed at the Uruguay Round of trade talks. China entered the 1990s with relatively high import tariffs, although certain specially designated economic zones already enjoyed a more liberal regime dating from the late 1970s; but these were more than halved in the early 1990s and then reduced further with China's accession to the WTO in 2001. India had the highest tariffs among the BRIICS in the late 1980s, but implemented ambitious tariff cuts in the 1990s and 2000s – greater than those in the OECD area during the Uruguay Round of trade negotiations.

Estimates of the gains arising from different approaches to liberalisation involving the BRIICS suggest that each of the BRIICS economies would gain a great deal more from multilateral free trade than they would from

extensive preferential trade agreements, even agreements with large trading blocs like the EU, US and Japan. (OECD, 2009)

ORGANISATIONAL/CORPORATE CULTURE

Edgar Schein, an MIT Sloan School of Management professor, defines organizational culture as: “A pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems”(Schein, 2004).

Most managers have been introduced to the concept of culture through the work of Deal and Kennedy. In their landmark book, *Corporate Cultures*, first published in 1982, the authors describe culture in the following terms: “Values are the bedrock of any corporate culture”. They go on to add: “As the essence of any company’s philosophy for achieving success, values provide a sense of common direction for all employees and guidelines for their day-to-day behaviour” (Deal and Kennedy, 1982)

Researchers have for long focused on the nexus between corporate culture and organizational practices. Most of them have underlined four distinct but interrelated components of organizational culture: behavioural norms, such a company’s approach to people management and industrial relations and the strength of peer-pressure to conform to expected company norms; shared values, business principles and ethical standards that are preached and actually practiced; different types of artefacts such as often repeated stories and revered traditions; and behaviours such as how managers and

employees interact with each other and how a company deals with external stakeholders (Thompson, Strickland and Gamble, 2007).

Hofstede (2001) have identified four dimensions of culture in his study of national influences: Power distance - The degree to which a society expects there to be differences in the levels of power. Uncertainty avoidance reflects the extent to which a society accepts uncertainty and risk. Individualism vs. collectivism - individualism is contrasted with collectivism, and refers to the extent to which people are expected to stand up for themselves, or alternatively act predominantly as a member of the group or organization. Masculinity vs. femininity - refers to the value placed on traditionally male or female values at the same time, the movement of people across national borders and the preservation of particular groups with specific idiosyncratic customs, together with differences in social and economic experiences, highlights that subcultures can coexist in many countries. According to Hofstede the values that distinguished countries from each other could be grouped statistically into four clusters. These four groups became the Hofstede dimensions of national culture: (a) Power Distance - PDI, (b) Individualism versus Collectivism – IDV, (c) Masculinity versus femininity – MAS, and (d) Uncertainty Avoidance – UAI.

Dowling and Welch (2004) identify several significant differences between managing human resources in an international context as opposed to a domestic one. First, they provide an argument that there is simply more HR work to be done when operating in an international environment, because the HR function must engage with a number of activities that would not be necessary in a domestic context including international taxation, international relocation and

socialisation, host government relations and language translation services. The international context also requires, they suggest, a broader perspective with international HR managers being forced to consider a wide range of variables in their decision-making. Concomitantly, such HR managers may also need to demonstrate a greater involvement in employees' personal lives. This, they suggest, is particularly significant in relation to employees on global assignment as HR may have a role to play in relocation arrangements, health care arrangements, as well as issues relating to international assignee's spouse and family. They also point the dynamics of the subsidiaries' labour market noting that, the workforce mix of parent country nationals, third country nationals and host country nationals will vary, depending on how mature the MNC is. As the multinational matures, the reliance on expatriate employees as position fillers in subsidiaries reduces with the consequence that the HR emphasis for the subsidiary must shift from narrow issues concerned with the management of expatriates to a broader remit incorporating issues concerning host or third country employees who will require a different HR focus.

NEED FOR TRANSFER OF HRM PRACTICES

According to Randhawa (2007) Human Resource management (HRM) refers to the policies and practices involving in carrying out the people or human resource aspects of a management position, including recruitment, screening, training, rewarding and appraising. Whereas, international HRM can be defined as set of activities aimed managing organizational human resources at international level to achieve organizational objectives and achieve competitive advantage over competitors at national and international

level. Globalization is the buzzword today, and with the world shrinking it is very important to keep a track of activities of those employed in organisation in order to meet the competition.

Indeed, HRM is evolving from being a mere support function to one of strategic importance. Several authors note that HRM policies and practices are becoming crucial because they can act as mechanisms for coordination and control of international operations. Furthermore, managing HR in an international context is more complex than in a domestic setup because of several pronounced differences between headquarters and the subsidiaries. In the light of globalization, it has been acknowledged that HRM constitutes a major constraint when MNCs attempt to implement global strategies, mainly because of the different cultural and institutional framework of each country in which a given MNC operates. Henceforth, these MNCs have to adjust their HR policies and practices according to the host environment. These MNCs either adapt to change according to the local HR practices and policies or try to implement their own. In order to survive the competition, HR practices are moulded according to the need.

Needless to mention, HR policies guide various functions of HRM. HR policies of certain companies seem to discriminate on the basis of its diverse backgrounds of its workforce for example, sex, race, age, religion, education, sexual orientations and so on and so forth. The sources of the country of origin effect lies in the culture and institutions of the home country of the MNC. The mechanisms through which the effect manifests itself are the hiring of home-country nationals by the MNC, and the inbuilt administrative preferences of these host-country nationals in the organizational structures, procedures and

processes of the MNC. The homogeneity of the home culture, substantive characteristics of the home country culture, size and openness of the home-country economy, the cultural and institutional diversity of the environments in which the MNC operates, and the international growth path of the MNC are often taken to impact on the strength of the country-of-origin effect. Often, cultural perspective has concentrated its attention on the cultural distinctiveness of practices, beliefs and values of a community. Culture and values are associated with the national culture of a country as boundaries that allow interaction and socialization within them. Researchers have analysed the influence of these national cultural values, attitudes and behaviours on business and management styles (Hofstede, 2001).

CULTURAL IMPLICATIONS FOR HR PRACTICES IN EMERGING ECONOMIES

Noorderhaven and Harzing (2003) in their research examine the role of country-of-origin effects in MNCs. The research provides for definitional problems and discusses both the sources of the country-of origin effect, and the mechanisms through which it manifests itself. The study throws light on the strength of the country-of-origin effect which is hypothesized to be moderated by factors related to both the home country and the MNC. The Key results found in the research are that the sources of the effect lie in the culture and institutions of the home country of the MNC. Further, the research also studies the mechanisms through which the effect manifests itself are the (continued) hiring of home-country nationals by the MNC, and the embeddedness of the administrative preferences of these home-country nationals in the organizational structures, procedures and processes of the

MNC. Their study concludes that the homogeneity of the home culture, substantive characteristics of the home country culture, the size and openness of the home-country economy, the cultural and institutional diversity of the environments in which the MNC operates, and the international growth path of the MNC are proposed to impact on the strength of the country-of-origin effect.

Rosenzweig and Singh (1991) in their research argue that there are many different factors that determine the trade-off between integration and adaptation, such as: legal and regulatory constraints, industry, technology, parent country culture, cultural distance, work force composition, type of subsidiary establishment and dependence of the host country on the MNC. Their study focuses on drawing on the open-systems approach, as well as resource dependence and institutional theory, and emphasis is given to importance of both organisational and national environments.

Chang, Wilkinson and Mellahi, (2007) in their research examine the HRM practices of MNCs from emerging economies operating in western developed countries. Their findings are a blend of practices which have been adopted by the subsidiaries, ranging from emulating home country practices, adapting host country practices, and a melange of home and host country practices. The research suggests that MNCs from emerging economies behave differently from MNCs from developed countries such as Japan, the USA and Western European countries. However, Taiwanese MNCs deliberately adopt a varied HR approach to operate in an advanced economy as a result of dual pressures of home and host country effect. Consequently, in the study, apart from strategic issues wholly made by headquarters in Taiwan, other HR practices either adapt to local practices or use a hybrid style.

Chandrakumara and Sparrow (2004), their study extends the contention that national culture affects HRM policies and practices and explores meaning and values of work orientation (MVWO) as an element of national culture in predicting HRM policy-practice design choices. The research data was obtained from a large sample of employees in domestic and foreign-invested firms (FIF) in Sri Lanka. Twenty-six HRM design choices were clustered into four components: planned and open career and empowering system, qualifications and performance based reward system, generic functional perspective of job-person fit, and job-related competence and rewards. All the four HRM preference practices are influenced by MVWO. The evidence suggests MVWO relativity of HRM design choices in Sri Lankan context. The question of transferability of empowering and performance management to developing countries becomes evident through the research study. Moreover, MVWO relativity of HRM design choices is relatively high in FIF, reflecting that the “type of ownership” can have an impact not only on actual HRM practices but also on preferred HRM practices in FIF. The existence of business in the long-run and host government expectations also seem to be important factors in understanding HRM preferences in FIF.

Olumide (2010) develops a framework linking national and organizational culture with the adoption of organizational practices. His study adopts a multidisciplinary focus by bringing in evidence from the strategic management, cross-cultural studies, knowledge transfer, industrial relations, human resource management and control literatures to examine the successful adoption of organizational practices in the U.S. automotive sector. The results of the research suggest that cultural differences across the two liberal market

economies affect the HR management prevalent in the Czech Republic. The research concludes that national culture differences can be important and must be understood in explaining the organizational practices adopted by the foreign subsidiary of a parent company.

Barbara, Harzing and Mirza (2004) have done a comparative analysis of HRM practices in the subsidiaries of MNCs and local companies of Greece. The research investigates as to how HRM practices in subsidiaries of MNCs in Greece differ from those in local companies. The descriptive analysis in the research reveals both differences and similarities and indicates that Greek companies are highly embedded in their local regulatory framework and cultural environment. Moreover, the research also assess that there is evidence that subsidiaries are using hybrid HRM practices, shaped by both local forces and their parent company’s practice.

Wang-Cowham (2008) in her research found that the forms of HR structures, especially China centre-led HR structures, have created an opportunity for developing HR learning networks for sharing HR knowledge amongst sister-subsidiaries and between the subsidiary and the China centre. The research also focuses on foundation for wide collaboration between subsidiaries, and further for creating a knowledge-sharing culture to facilitate HR knowledge transfer.

Furthermore, Edwards and Zhang(2008) in their research draws data from a case study of an American multinational in China, and argue that analysis must be sensitive to the sector-specific conditions that create variation between MNCs in this respect. Specifically, the research focuses on the way that multinationals build international processes of production and conclude that service provision is a crucial factor in shaping these HRM

practices and whether these subsidiaries are innovators or adapters.

Ingmar and Lervik (2007) in their research provide an extensive evidence that planned transfers of management practices by the headquarters of MNCs to foreign subsidiaries are not always successful. Their research outlines a model of factors influencing the transfer of HR practices to MNC units abroad. The major contributions of their study is; first, it develops a more holistic understanding of the outcome of HR practice transfer as encompassing three dimensions: implementation, internalisation and integration; second, it expands current explanations of transfers of practices to foreign units. The research throws light on the fact that transfer of HR practices is a social process where the governance mechanisms used by the MNC, characteristics of the subsidiary HR systems, the social relationship between the subsidiary and MNC headquarters, and the transfer approach taken by headquarters management will influence the outcome of the process.

CULTURAL IMPLICATIONS FOR HR PRACTICES IN INDIAN CORPORATE SECTOR

Awasthy and Gupta (2011) have dealt with the concept of Non-work Practices and explored the impact on organizational commitment. They have paid attention to four MNCs operating in India; and have examined the degree to which non-work practices are accepted by Indian employees and their relationship with organizational commitment. They have used template analysis to interpret employees' feelings and experiences, and to identify emerging trends. Further they have carried out factors underlying non-work practices and studied relationship between organizational commitment and non-work

practices. They have found that since most of the non-work practices have been transplanted from the parent company, they are perceived as alien (except in the Anglo-American MNC). Host country employees show little enthusiasm in carrying out such practices and hence have no positive impact on their organizational commitment.

Ingmar and Budhwar (2007) have found in their research that HRM practices from the foreign parent organization are negatively associated with performance; and local adaptation of HRM practices is positively related with the performance of foreign firms operating in India. According to them the pathway is that HRM systems do improve organizational performance in the Indian subsidiaries of foreign firms. However, owing to the smallness of the sample, their study has limited external validity.

Mary and Jain (2008) have studied Indian IT sector using both qualitative and quantitative approaches. Data have been collected from large group of IT MNCs of Indian and foreign origin (U.S. and European) located in Bangalore and Hyderabad in India. They have assessed the flow of HRM practices and the differences in HR practices between Indian and foreign MNCs. They have found that the current business culture and level of technology of Indian IT MNCs is moderately similar to those of foreign MNCs, and more of US MNCs. There have found no difference between Indian and foreign MNCs in HRM practices. They conclude that the unexpected similarity in international HRM practices is probably due to: the nature of information technology; closing levels of R&D between Indian and foreign MNCs, and; similar business cultures of Indian and foreign MNCs. IT-intensive global organizations are likely to get a step closer to global HRM standardization.

Thite, Wilkinson and Shah (2011), have conducted a research on the emerging economies like China and India. The study develops a conceptual framework of global HR strategies and practices in MNCs from emerging economies across their subsidiaries in both developed and developing markets. Using data from a pilot study of an Indian MNC, their research provides insights into the motives, strategic opportunities and constraints in cross national transfer of HR policies and practices in a multi-polar world.

CONCLUSION

This paper has attempted to develop a research perspective for examining the process of transferring HR practice internationally within MNCs by looking at the contents, the mechanisms, and the results of the transfer in turn. It focuses on the impact of these practices on the corporate culture as a whole on the organisation. The arguments presented in this paper have two principal implications. First, when looking at the pictures as a whole, a multilevel approach may be appropriate for studying the process of cross-national transfer of HR practices within the MNCs practicing in emerging economies. Indeed, one can conclude from the previous sections that the reason for transfer may stem from national, organizational and relational contexts and are especially different in the context of growing economies from the developed world. Furthermore, HR practices in MNCs' subsidiaries in developing countries or transition economies deserve more systematic exploration.

Similarly, there is a remarkable divergence between HRM policies on the one hand, and HRM practices on the other. It is found that whereas companies might find it feasible to have company-wide policies, they might find

it unavoidable to be responsive to local conditions when it comes to HRM practices due to various cultural implications. Further, it is maintained that some practices can be transferred across nations almost without any change from one country to another; some have modified to become workable in another cultural setting; and some are more deeply culture-specific and may not always be transferred. It may be pointed out that there is often noted a divergence between HR policies and HR practices.

Henceforth, it is utmost important for the MNCs to realise the role of international HRM in transferring the practices from the headquarters to the subsidiaries, taking into consideration the local forces at play. In order to achieve success in the globalised world the MNCs cannot ignore the growing role of international HRM. Furthermore, the interweaving of local and headquarter practices is the key to success and survival for the MNCs.

REFERENCES

- [1] Arthur A., Thompson, A., Strickland, J., Gamble., J. E. (2007), "Crafting and Executing strategy", Irwin: McGraw-Hill.
- [2] Awasthy, R. (2011), "Do non- work practices in MNCs operating in India impact organisational commitment", *Organisations and Markets in Emerging Economies*, Vol. 2, pp 28-52.
- [3] Cindy, W. (2008), "HR structure and HR knowledge transfer between subsidiaries in China", *Learning Organization*, Vol. 15, pp 26 – 44.
- [4] Chang, Y. Y., Wilkinson, A. J. and Mellahi, K. (2007), "HRM strategies and MNCs from emerging economies in the UK", *European Business Review*, Vol. 19, pp 404 – 419.
- [5] Chandrakumara, A. and Sparrow, P. (2004), "Work orientation as an element of national

- culture and its impact on HRM policy-practice design choices: Lessons from Sri Lanka”, *International Journal of Manpower*, Vol. 25, pp 564 – 589.
- [6] Deal, T.E. and Kennedy, A. (1982), *Corporate Cultures*, Reading, MA: Addison-Wesley.
- [7] Dowling, P. Z and Welch, D. E. (2004) *International Human Resource Management: Managing People in a Multinational Context*, Cincinnati: South-Western College Pub.
- [8] Edwards, T. and Zhang, M. (2008), “Multinationals and national systems of employment relations: Innovators or adapters”, *Emerald Group Publishing Limited*, Vol. 21, pp 33-58.
- [9] Hofstede, G. (2001), *Culture’s Consequences: comparing values, behaviours, institutions, and organizations across nations*, Thousand Oaks, CA, SAGE Publications.
- [10] Ingmar, B. and Lervik, J. E. (2007), “Transferring HR practices within multinational corporations”, *Human Resource Management Journal*, Vol. 17, pp 320-335.
- [11] Ingmar, B. and Budhwar, P. (2007), “When in Rome ...?: Human resource management and the performance of foreign firms operating in India”, *Employee Relations*, Vol. 29, pp 595 – 610.
- [12] Mathew, M. and Jain, H.C. (2008), “International human resource management in the Indian information technology sector: A comparison of Indian MNCs and affiliates of foreign MNCs in India”, *emerald group publishing limited*, Vol. 21, pp 267 – 297.
- [13] Myloni, B., Harzing, A. and Hafiz, M. (2004), “Human Resource Management in Greece: Have the Colours of Culture Faded Away?”, *International Journal of Cross Cultural Management*, Vol. 4, pp 59-76.
- [14] Noorderhaven, N. G. And Harzing, A. (2003), “The country-of-origin effect in multinationalcorporations: Sources, mechanisms and moderatingConditions”, *Management International Review*, Vol.43, pp 47-66.
- [15] OECD (2009). Globalisation and emerging economies, *Policy Brief, Organisation for Economic cooperation and development*. Retrieved from <http://www.oecd.org/dataoecd/35/34/42324460.pdf>.
- [16] Olumide, I. (2010), “Culture and the Adoption of Practices: An Assessment of the U.S. Automotive Manufacturing Sector”, *Journal of International Business and Cultural Studies*, Vol. 2, pp 1-16.
- [17] Randhawa, G. (2007) *Human Resource Management*, New Delhi: Atlantic publishers.
- [18] Rosenzweig, P. M. and Singh, J. V. (1991), “Organizational Environments and the Multinational Enterprise”, *the Academy of Management Review*, Vol. 16, pp 340-361.
- [19] Rosenzweig, P. M. and Nohria, N. (1994), “Practices in Multinational Corporations”, *Journal of International Business Studies*, Vol. 2, pp 229-251.
- [20] Rogers, E. (1995), *Diffusion of Innovation*, New York, NY: Free press.
- [21] Schein, E. H. (2004), *Organizational Culture and Leadership*. San Francisco, CA: Jossey-Bass.
- [22] Scullion, H. and Brewster, C. (2001), “The management of expatriates: messages from Europe”. *Journal of World Business*, Vol. 36, pp 78–93.
- [23] Smith, C, and Meiskins, P. (1995), “System, Society and Dominance Effects in Cross-National Organisational Analysis”, *Work, Employment and Society*, Vol. 2, pp 241-267.
- [24] Thite, M., Wilkinson, A. and Shah, D. (2011), “Internationalization and HRM strategies across subsidiaries in multinational corporations from emerging economies—A conceptual framework”, *Journal of World Business*, Vol. 47, pp 1-8.