HRM Practices in Local and Multinational Companies: Survey and a Conceptual Model

Abstract: This paper highlights the concepts and theories behind HRM and International HRM, as well as examining the various mechanisms which may affect the way HRM is utilized within multinational companies. Additionally, it reviews and critically discusses the theoretical and empirical work that has been done in analyzing the differences in HRM in local and multinational companies, and emphasizing the importance of understanding these differences when looking at the relationship between HRM and organizational effectiveness. Finally, and based on the gaps in the literature, additional hypotheses will be developed.

Keywords: Human resource management, globalization, multinational companies, convergence / divergence theory.

1. Introduction
The human resource of an organisation has been looked upon as a very valuable asset that would need to be handled both efficiently and effectively in order to maximise returns from these assets. Owing to the increasing importance of HRM in companies and the rapidly changing environment where they operate, the concept is constantly evolving to keep up with the more complex needs (Deadrick and Gibson, 2009). Two prominent concepts have been developed from the concept of HRM, which are strategic human resource management (SHRM) and international human resource management (IHRM). The concept of SHRM looks to thoroughly link and integrate the HR function with the overall strategic direction of the organisation to improve organisational performance and ensure a sustainable competitive advantage (Wright and Snell, 1991). On the other hand, the concept of IHRM has become substantially more important in every way because of globalisation as it relates to movement and change in every environment, from the economic and political, to the social and cultural, as well as any advancements in the technological and legal arenas. It is the characteristics of these conditions that are important for MNEs and IHRM.

2. HRM and Globalisation
As a result of globalisation, many organisations have to compete on a global scale rather than just focusing on regional markets. It must be noted, however, that some argue that the majority of MNEs should and does compete strategically on a regional or even local basis.
(Ghemawat, 2005). Subsequently, the concept of national responsiveness which would be faced by MNCs would also place cultural differences in the forefront, with differences in values and expectations, behaviours, and negotiation and communication difficulties taken into account when developing an international strategy. Nevertheless, all MNEs need to be concerned, on an operational basis, with human resource management issues on an international or global platform.

3. HRM practices

As mentioned earlier, HRM is made up of a range of practices and this variety of practices has led to many scholars presenting their own HR systems. These systems have been explored to identify specific HR practices which would be utilised by local and multinational organisations to gain an advantage over their competition in their competitive environments (Theriou and Chatzoglou, 2008). Our focus will be on the following HR practices: recruitment and selection, internal career opportunities, formal training system, formal appraisal system, incentives and rewards as well as retention. These practices have been identified by Pfeffer (1994) in his 16 effective practices for managing people.

Generally speaking, and after looking at the main HR practices in the literature, researchers have proven the critical role that HR practices could play in different organisations. As can be clearly seen from different studies in HRM area that HR practices have a significant impact on vital issues in organisations such as turnover, productivity, job satisfaction, employee commitment, market share, as well as real and perceived financial performance. Moreover, the majority of researchers have witnessed some differences in applying these practices between national and multinational organisation. These differences are seen in the approaches of local and multinational companies to the different HR practices and are made more apparent when the characteristics of these multinationals is deeply explored.

4. The Convergence / Divergence Debate

The convergence–divergence debate has been an ongoing issue in international management since Kerr et al., (1960) presented the thesis where the patterns of organisational and institutional behaviours within industrial societies were ‘converging’ or becoming more similar. During this period, when researchers began to study the management of organisations in different countries, the belief was that management principles would hold universally.
The ‘convergence hypothesis’ stated that ‘best management practices’ could be applied everywhere, irrespective of the different political, ideological and cultural environments. National culture can impact on organisational culture by the development of organisational values which are influenced by a manager’s basic assumptions that have been developed by their own sets of behaviours and norms. The differences in management practices should also be viewed in the same way as many scholars attribute this to the ‘country of origin effect’ which comes about through clashed between organisational factors and local culture (Aycan, 2005).

5. Concepts underlying IHRM
The convergence – divergence debate highlights the arguments that HRM within organisations would become increasingly similar due to a firm having a structure free from cultural influences with globalisation freeing MNCs from the influence of national institutions making their renewed interest in the convergence hypothesis (Chen, Lawler & Bae, 2005). On the other hand, scholars supporting the divergence hypothesis argue that organisational structures are not set and that management practices would reflect national differences in regulations, government policies, culture and beliefs as well as national educational systems (Hollingsworth & Streeck, 1994). Therefore, analysing the following linkages is essential: Country of Origin, Method of Establishment, Strategic Involvement /Strategic Devolvement, Organisational Culture and HRM and Organisational Effectiveness as these areas have not been explored especially in a comparison study between local and multinational companies.

6. Proposed Hypotheses
After conducting a comprehensive review of literature, we have highlighted the many important issues that have been explored by previous studies as well as very critical issues that have to be explored in the next generation of research of comparison studies (Budhwar and Debrah, 2008). Our approach for future empirical work would hope to achieve two objectives, the first emphasizing all issues that have been discovered in previous studies in the context of looking at HRM in Brunei Darussalam and the second would be to look at areas not previously explored in comparison studies such as strategic HR involvement and devolvement and the relationship between HRM and organizational effectiveness. With these aims, we propose the following hypotheses:
a. Significant differences in HR practices will be seen between local and multinational companies.
b. Significant differences in the implementation of HR practices and policies will be seen across the different organisations when ownership type is considered.
c. The HR manager plays a more strategic role in multinational organisations when compared to that of the HR manager in local organisations.
d. The HRM practices of foreign subsidiaries would more closely reflect local practices in MNC subsidiaries with nearby home countries.
e. Eastern subsidiaries have practices more closely resembling local practices compared to Western subsidiaries.
f. Strategic HR involvement and HR devolvement would be more extensively practiced in foreign companies compared to local companies.
g. HR practices are perceived to be more positively related to performance in MNCs than in local companies.

7. Previous Work and Future Directions
To make further progress with the thesis, a questionnaire was developed and distributed to a sample of companies in Brunei. 151 responses were received from a sample size of 214 and this signalled a response rate of 70%. This is a remarkable response as the normal response rate for mail surveys are typically low and a rate of 30% is deemed acceptable. In total and fortunately, from the 151 respondents, around 60% were local organisations and 40% were from multinational organisations. Such percentages would achieve the purpose of a comparison study. Currently, the data analysis process is being done. After analysis has been completed, the results will be dispersed in the form of publishing papers and attending conferences when possible.

8. Conclusion
After analysing the theoretical base of HRM literature as well as the empirical results of previous comparison studies conducted, it is evident that there are many more questions that can be asked rather than answers that can be identified. Previous comparison studies done in the field of HRM, either cross culturally or cross nationally’ focus on the effect of culture on HR practices within organisations, the ‘country of origin’ effect which can affect HR adoption and the ‘convergence’ of HR practices due to globalisation and the increased
mobility of technology and human capital. The studies have also been quite varied in their results with comparisons between local and multinational companies having many differences being recorded but there are also similarities depending on the practice being explored and the nature of the culture and institutional policies inherent in the host country. Until now, there has been no concrete answer to the convergence / divergence debate.

Therefore, other areas that are to be explored further in the empirical work to be done include the country of origin effect of different companies, the mode of establishment which looks at the degree to which the multinational company involves itself in the operations of the overseas subsidiary, the level of strategic involvement and devolvement, as well as the organisational culture inherent in the multinational company. These areas have been explored before but they have not been looked at as the reasons for differences in local and multinational companies. This is made more apparent as the future empirical work will be looked at from the perspective of a developing country. Finally, the focus will be on the HR practices and its effect on the perceived organisational effectiveness. This is increasingly important as the area of organisational effectiveness is seen as the ‘holy grail’ of HRM as it gives a more empirical base rather than the purely theoretical importance due to the lack of this relationship.

References


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