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THE ROLE OF MNCS IN DEVELOPING BEST PRACTICES IN HRM

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ABSTRACT

The paper analyzes the role of contemporary multinational companies in the overall development of HRM field through investigating their role in developing best practices in HRM. Using the lens of four different strategies for managing employees in subsidiaries of multinational companies (manipulative, exportive, adaptive and integrative strategy), the paper considers the impact those strategies have on the way HR practices are being transferred and/or developed within a multinational company. Drawing upon results from a qualitative research, the paper discusses the processes and the scope of each strategy's contribution to the development of best practices in HRM, and ultimately how multinational companies shape the overall HRM field.

Key words: human resource management (HRM), multinational companies (MNCs), developing HRM in MNCs, transferring best HRM practices in MNCs, strategies for managing employees in subsidiaries.

INTRODUCTION

Multinational companies can be found of all shapes and sizes, but they all have one common feature: their business expands over their national market. They represent the type of organization that has the need to manage employees with different origins and located in different legal, political, economic, social and cultural environments (Tayeb, 2005; Dessler, 2005 and 2013). The

dominance of multinational companies (MNCs) in the business world today is substantial, which gives them the right to hold the title of key drivers of the global economy (Tayeb, 2005; McGraw, 2004).

The focal area of this paper is the area of human resource management (HRM) and the notion that MNCs might be the key drivers for enhancing HRM practices. HRM practices are focused on attracting, retaining and using the best talents for achieving organizational success. While HRM has previously been considered as a business practice which provides for the survival of many MNCs (Bartlett, & Ghoshal, 1989; Taylor, Beechler, & Napier, 1996; Schuler, Budhwar, & Florkowski, 2002), researchers today are convinced that the success of multinational companies and their ability to achieve competitive advantage is predominantly a result of having competent employees and adequate HRM practices (Morris, Snell, & Wright, 2006; Tarique, & Schuler, 2008; Briscoe, Schuler, & Tarique, 2012). More specifically, HRM practices have a significant impact on vital employee outcomes such as employee job satisfaction, productivity, engagement, and commitment, as well as broad organizational outcomes leading to superior performance.

Every MNC today struggles to achieve a balance between centralization which will allow control over its subsidiaries, and responsiveness to local environment which will allow better adaptation to local needs and markets. In other words, the MNC is constantly balancing the headquarters' need for control and the subsidiary's need for autonomy. One of the ways MNCs are managing this balance is through developing adequate relationship between headquarters and its subsidiaries. Several factors influence the relationship between headquarters and subsidiaries, such as the context of the subsidiary, differences between HQ and subsidiaries (geographical, psychical and business style), the role of the subsidiary, the type of entry, the conflicting needs of the headquarter and subsidiary, and the strategy MNC uses to manage its employees in subsidiaries. This paper is going to explore how the strategies MNCs use to manage its employees in subsidiaries are influencing the relationship between headquarters and subsidiaries, the balance between control and autonomy and consequently the recognition, development and transfer of best practices in HRM.

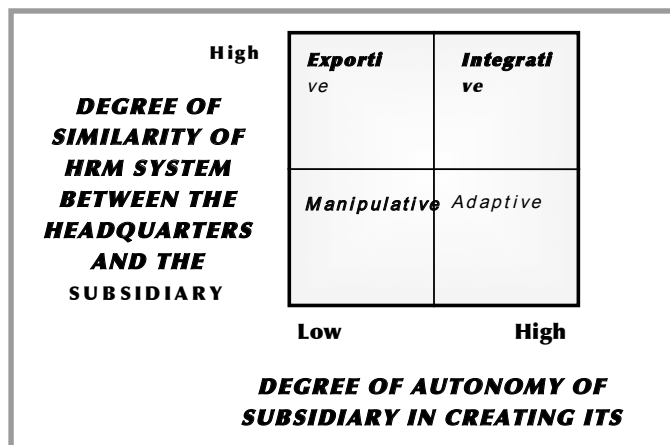
STRATEGIES MNCS USE TO MANAGE EMPLOYEES IN SUBSIDIARIES

Typically, the headquarters either applies its parent company HRM policies and practices directly to its foreign subsidiaries, or it tries to merge its HRM policies and practices with those that are common in the host countries (Briscoe, Schuler & Tarique, 2012). One of the reasons for applying parent company HRM

policies and practices is to maintain control over the subsidiary. But also, since much of the work of HR practitioners in a multinational setting is heavily influenced by past practice, experience and tradition of the company (Farndale, & Paauwe, 2005), it is natural to expect that MNCs will believe their approach is the best one. On the other hand, it has been noted 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 (Taylor, Beechler, & Napier, 1996). Even more, some MNCs may consider that the transfer of HRM policies and practices itself is not necessary for their successful operation, especially in some developing countries (Cox, 2014). Consequently, it is obvious that the choice of strategy for managing employees in subsidiaries is not as simple as the choice of centralization vs. localization.

Building upon the framework of Taylor, Beechler and Napier (1996), Vidović (2013 and 2015) has identified four strategies contemporary MNCs use to manage employees in their subsidiaries: manipulative, exportive, adaptive, and integrative strategy. Those strategies can be distinguished using two basic dimensions: (1) degree of similarity of HRM practice in headquarters and the subsidiary, and (2) degree of autonomy that HR managers from the subsidiaries have for shaping the HRM system in their subsidiary. The characteristics of four basic strategies according to these two dimensions are visible from Figure 1.

Figure 1: Strategies for managing human resources in subsidiaries of multinational companies



Source: Vidović, M. (2013). *The typology of strategies of managing employees in subsidiaries of multinational companies*, Doctoral dissertation, Zagreb: Faculty of Economics & Business, University of Zagreb, pp. 173.

Manipulative strategy describes a situation in which the headquarters allow low degree of autonomy to the subsidiary, while at the same time maintaining low degree of similarity of HRM system between headquarters and the subsidiary. In other words, the headquarters tend to export only minor fractions of their HRM practice to subsidiaries, even though this practice might be the one to ensure them the competitive advantage in home country. Exportive strategy also describes a situation in which the headquarters allow low degree of autonomy to the subsidiary, but at the same time the similarity of HRM system between headquarters and the subsidiary is high. This implies that the HRM system used in the headquarters is to be identically transferred to the subsidiaries.

Adaptive strategy is the one with high degree of autonomy for the subsidiary, and low similarity of HRM system between headquarters and the subsidiary. This implies designing the HRM system in the subsidiaries which is completely adapted to the local environment, and using the local HR manager's expertise to make the necessary changes and adaptations. Integrative strategy is also the one with the high degree of autonomy for the subsidiary, while at the same time maintaining high similarity of HRM system between headquarters and the subsidiary. This strategy is aimed at recognizing and using the best HRM approaches from different parts of the MNC and creating a universal HRM system which will be used in both the headquarters and the subsidiaries (implies high similarity and high autonomy of HR managers).

METHODOLOGY

In order to empirically examine how the HRM policies and practices are being developed in subsidiaries of MNCs, how this is connected to the strategy used to manage employees in subsidiaries, and how this relates to the development of best practice in HRM, the qualitative approach was used. Empirical research focused on subsidiaries of foreign MNCs in Croatia that have more than 250 employees.¹ The approach of focusing on MNCs' subsidiaries in one country is common in literature, whereas the usual practice involves one-time research to determine the practice of managing employees in the subsidiaries (for example see Johnston, 2005; Babenroth, Li, & Sekiguchi, 2008; Darrag, Mohamed, & Aziz, 2010).

The interviews were performed in Croatian, face-to-face with the HR manager of the subsidiary, relying on the fact that he will be the most knowledgeable about the topic. Also, an in-depth interview with one representative of

¹ The research was part of the more elaborate research design involving a qualitative and two quantitative researches, performed as a base for doctoral dissertation of the author.

the organization is the usual approach in researches of this type, with HR manager being the usual interviewee for the topics regarding HRM in MNCs (De Cieri, Cox, & Fenwick, 2007). The interviews lasted between one hour and two and a half hours, structured around the beforehand prepared set of questions, but allowing for interviewee to elaborate on their answers to get a thorough understanding of the topic. Interviews were being performed in the period between March and May 2012. The transcript of the responses was made, and they were analyzed by their content and categorized by the topics following instructions set by De Cieri, Fenwick and Hutchings (2005).

Interviews were performed altogether in 11 subsidiaries of 11 different foreign MNCs, resulting with data from 2 subsidiaries with manipulative strategy, 4 subsidiaries with the exportive strategy, 2 subsidiaries with adaptive and 3 subsidiaries with integrative strategy.

Regarding the country of origin for MNCs in the sample, it is believed that the country in which an MNC originates exerts a distinctive effect on the way labor is managed in its international subsidiaries (Ferner, 1997; Gunnigle et al., 2007). In this research all MNCs originate from few countries in Europe, making them a rather homogenous group from the country of origin perspective.

FINDINGS

Interviews with both HR managers from subsidiaries which were experiencing the manipulative strategy consistently revealed the same mechanism of transfer of HRM practice. Both subsidiaries reported that the HRM system for the subsidiary was being developed and decided in the headquarters, for some practices more deliberately, for some practices more as a result of lack of attention. Both subsidiaries reported the fact that they were aware that not all the best practices from the headquarters were being transferred to the subsidiary. Also, for some of the HRM practices, it was reported that if some initiative came from the subsidiary to implement acknowledged best practices in HRM field, either those used in the headquarter or based on the idea from scientific and popular press, they would be deferred from such action. This was especially the case for HRM activities that involved getting extra budget (such as training and development or compensation management initiatives).

Interviewees from subsidiaries with recognized exportive strategy, all four of them, were unanimous in reporting that their headquarters would use completely identical HRM system in all of the subsidiaries of the MNC. This had two repercussions. Firstly, those companies that did not have a very elaborate HRM system and established HRM policies and practices before becoming a subsidiary would receive a completely defined and already proven HRM sys-

tem that allowed them to start using some of the best HRM practices, resulting in high satisfaction both in the HR Department and overall employee satisfaction in that subsidiary. On the other hand, those companies that already had some HRM policies and practices defined and aligned before becoming a subsidiary were unpleasantly surprised to find they needed to completely change their HRM system and without any change implement the one from the headquarters. Those HR managers would be occasionally disappointed to see some of the HRM policies and practices that worked well in their company, now completely abandoned. In such cases, HR managers from the subsidiaries could not testify if the new HRM policies and practices were better than the old ones, just that they were different than the ones used before. Such cases have resulted in much resistance both from HR managers in subsidiaries, but sometimes also with resistance from employees, who did not welcome the change, especially since they were not convinced the change would necessarily mean a change for the better.

As for the findings in subsidiaries which experienced adaptive strategy, both HR managers from those subsidiaries reported a very high level of autonomy in regards to HRM domain. In one occasion, the headquarters showed no interest in getting involved with the specific HRM policies and practices used in the subsidiary, as long as the subsidiary produced satisfactory financial results. In other occasion, the HR manager from the subsidiary was an experienced expert in his field and was working closely with the headquarters' HR Department on defining an HRM system in the subsidiary, but reported that headquarters completely relied on the subsidiary to have the best knowledge of which HRM policies and practices would work best in their local environment. The headquarters was offering advice and insight into the HRM policies and practices used in the headquarters and other subsidiaries. Also, the headquarters was maintaining some level of control over the subsidiary by insisting on approval of all HRM related decisions. But, the approval was only a formal one, probably with the intention of making sure they receive all the important new decisions and actions.

Finally, subsidiaries with integrative strategy were the most interesting from the aspect of transfer of HRM practices. Interviewees from those subsidiaries consistently reported that the HRM policies and practices were globally/regionally integrated in terms of having the same HRM system in the whole MNC (headquarters and all of the subsidiaries). On some occasions, some subsidiaries would slightly adapt some of the HRM policies or practices to better suit the local environment. What was interesting was the approach MNCs used to come up with such integrated HRM. HR managers from the interviewed subsidiaries reported that their MNCs would have an ongoing practice of regular

meetings for HR managers from all parts of the MNC. Those meetings would be held two to four times a year, and more frequent if necessary. HR managers would physically meet and discuss about current HRM topics. Sometimes the agenda for the meeting would be the necessity of adapting some HRM policies and/or practices to local environment in one of the parts of the MNC, and sometimes it would be purely a discussion about some new HRM techniques and brainstorming on the possibility of using such practice in their MNC. Such meetings, as reported, were always very intensive and interesting for the participants. They felt connection to the whole group, and took comfort in knowing other HR experts would be willing to help decide which approach might work best if some practice needed adaptation to specific local environment. On the other hand, they were enthusiastic for meeting with other experts in their field and for the opportunity to discuss some common issues and potential solutions to the problems.

DISCUSSION AND CONCLUSION

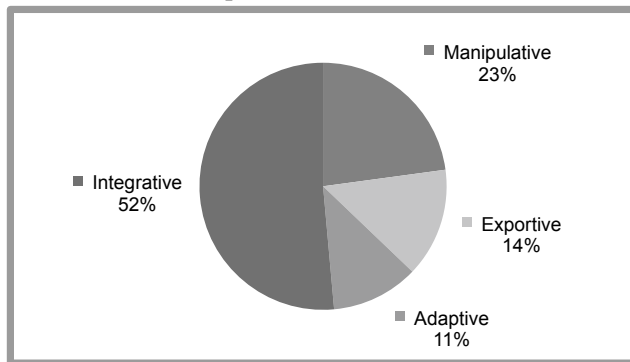
In contemporary literature the overall perception of the influence MNCs have on the business practice is divided. Zhang, Edwards, and Edwards (2006, pp. 131-133) have presented a summary of different opinions, ranging from completely negative influence for the host country, through indifferent to very positive. Also, the literature stresses the current process of two opposing forces in European business world: globalization which fosters convergence of HRM practices, and European integration which cherishes diversity of nations, sectors and organizations and contributes to divergence of HRM practice (Sisson, 2004). In this light, it can be said that convergence of HRM practice is actually being directed by powerful MNCs (Morley, & Collings, 2004).

Based on the findings from this research, it seems that the role of MNCs in Croatia in shaping the HRM practice can be seen as both positive and negative. More specifically, for those subsidiaries experiencing manipulative strategy the influence is mostly negative. It can be argued that MNCs using this strategy are actually deferring the quality of HRM practice in the subsidiaries, degrading it from the business practice that can enable gaining competitive advantage to the one can result in lower job satisfaction from employees, and consequently higher turnover and worse overall performance. For subsidiaries experiencing exportive and adaptive strategy the role of MNCs in shaping HRM practice can vary from slightly negative through neutral, to positive. It seems that for these two strategies there are other factors present which are influencing the possibility of MNCs to act as key drivers of developing best practices in HRM, which calls for further investigation. As for the subsidiaries with integrative strategy, according to the findings from this research, the influence of MNCs

on the development of best practices in the HRM field is extremely positive. It can be argued that it is the skills and expertise of HR experts from those MNCs that are the biggest drivers of developing best practices in HRM. Such finding can have important repercussions for researchers investigating the concepts of best practices and high performing work practices in the HRM field, as it could be implied that MNCs that use integrative strategy would be the most important subjects for researchers that are investigating the best policies and practices for managing employees, as well as for companies searching for adequate firms to perform benchmarking with.

In order to have a better insight into distribution of different strategies for managing employees in subsidiaries in Croatia, i.e. to determine their presence in the Croatian business arena, results from another research will be examined. Specifically, drawing upon results from a quantitative study with representative sample, the presence of different strategies for managing employees in subsidiaries of MNCs in Croatia is shown in Figure 2.

Figure 2: Presence of different strategies for managing employees in subsidiaries of multinational companies in Croatia



Source: Vidović, M. (2013). *The typology of strategies of managing employees in subsidiaries of multinational companies*, Doctoral dissertation, Zagreb: Faculty of Economics & Business, University of Zagreb, pp. 216.

As can be seen from the figure above, the integrative strategy is the most common one with more than 50% presence in foreign MNC's subsidiaries in Croatia. Having in mind that this is exactly the strategy which most drastically contributes to the development of best practices in HRM, it can be argued that MNCs carry a lot of influence in shaping the future of HRM in Croatia.

Although this research goes to show that MNCs have an important role in developing best practices in HRM in Croatia, it would be interesting to examine their role in other developed and developing countries, both in terms of

the process of transferring HRM policies and practices within MNCs according to different strategies for managing employees in subsidiaries of MNCs, and in terms of presence of those strategies in subsidiaries in different countries.

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ULOGA SUVREMENIH MEĐUNARODNIH PODUZEĆA U RAZVOJU PODRUČJA UPRAVLJANJA LJUDSKIM POTENCIJALIMA

SAŽETAK RADA:

U radu se analizira uloga suvremenih međunarodnih poduzeća u razvoju područja upravljanja ljudskim potencijalima kroz istraživanje njihove uloge u kreiranju i korištenju najboljih praksi u tom području. Analiza se temelji na četiri strategije za upravljanje zaposlenicima u podružnicama međunarodnih poduzeća (pojednostavljena, izvozna, adaptivna i integrativna strategija) te se analizira utjecaj koji svaka od navedenih strategija ima na prenošenje i/ili razvijanje prakse upravljanja ljudskim potencijalima unutar međunarodnog poduzeća. Koristeći podatke dobivene kvalitativnim istraživanjem, u radu je detaljno opisan proces kao i opseg doprinosa svake od strategija razvoju najboljih praksi u području upravljanja ljudskim potencijalima. Diskusija o prikupljenim rezultatima ujedno ukazuje na ulogu međunarodnih poduzeća u oblikovanju cjelokupnog područja upravljanja ljudskim potencijalima.

Ključne riječi: upravljanje ljudskim potencijalima (ULJP), međunarodna poduzeća, razvoj prakse upravljanja ljudskim potencijalima u međunarodnim poduzećima, prenošenje najboljih praksi upravljanja ljudskim potencijalima u međunarodnim poduzećima, strategije upravljanja zaposlenicima u podružnicama međunarodnih poduzeća.