



“HR Practices and their Global Applicability: Challenges and Opportunities in Global Culture in the modern age”

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ABSTRACT

Globalization can be defined as the ongoing economic, technological, social, and political integration of the world that began after the Second World War. There are several dimensions to this dynamic process, including the increased internationalization of economic markets as reflected, for example, in trade and financial capital flows.

The ever expanding global market and business environment has pushed the corporations to find new and effective ways by which their competitive positions can be improved. In recent years, the persistent flow of globalization and advancement in technology has threatened and in many ways taken away many of the sources of competitive advantage which drives the performance of a firm. As a outcome of which the MNC's have started considering their human resource and the associated practices as the most essential way for securing their competitive advantage at global front.

A big question which arises is how workforce with vastly different contextual contingencies can be used to get sustainable competitive advantage. This research paper analysis the key factors of HR which are applicable for bringing effectiveness on global front and also include the factors which limit the diffusion of global HR practices and how they can be overcome.

Key words: Globalization, Moderating Role of Organizational Culture, Determinants of Divergence and Convergence, National culture, MIS.

INTRODUCTION

The ever expanding global market and business environment has pushed the corporations to fine new and effective ways by which their competitive positions can be improved. . In recent years, the relentless march of globalization and technical advance has begun to threaten, and, in some cases, whittle away many of the sources of competitive advantage that drive firm performance. With ever expanding markets of product the ease of entry has increased and cost is decreased due o which researchers gave views that the primary resources regarding a firm’s competitive advantage include its physical assets, financial capital, human resource, organizational systems, technology and knowledge, and intangible assets (eg., trademark, patent, copyright and goodwill). They indicated that a firm’s sustained competitive advantage results from its strategic resources that are valuable, rare, imperfectly imitable, and non – sustainable. This view focuses on a firm’s internal attributes especially its strategic resources (Peteraf&barney, 2003).

As a outcome of which the MNC’s have started considering their human resource and the associated practices as the most essential way for securing their competitive advantage at global front. Thus it is evident that such resources which are non sustainable and rare will help a firm to gain its superior competitive position. By using best HR practices and firm specific systems the firms can generate such products which are non imitable and provide huge returns. It will enable the competitors to viewthe creations of other firms but disable them to replicate or purchase.

However the heterogeneous nature of resources and their associated responses have differences between firms, within the firms. A big question which arises is how workforce with vastly different contextual contingencies can be used to get sustainable competitive advantage. Any attempt to find resolution invariably leads to at least an implicit debate about whether HR practices can be generalized across all contingencies based on a “common logic of industrialism” (McGaughey& De Cieri, 1999) or whether these contingencies—e.g., culture, institutional structures, education levels, etc.— necessitate a formulation of HR policy and practice that is unique to the environment in which it is implemented.

Determinants of Divergence and Convergence

A review of the extant literature on global HR and its international and cross-cultural applicability reveals a few key determinants influencing the ultimate effectiveness of HR practices across national boundaries as well as the differentiation of those practices across various localities: national culture, institutional factors (e.g., labor-market and other regulation), labor-force characteristics, and the presence of expatriates. While the level of operation of these factors is, for better or worse, often constrained to the realm of “micro” or “macro”, several operate at both, or alternatively, between these distinctions within a “meso” level.

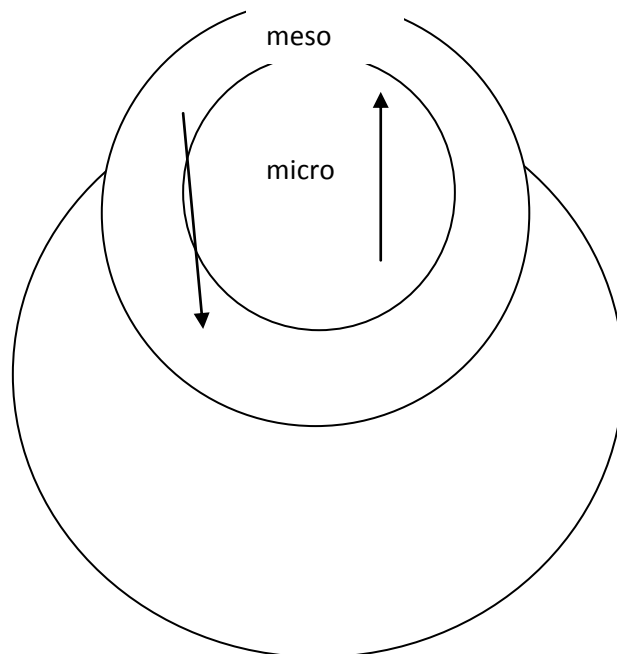


Fig. 1: Micro- and macro-level factors are not isolated. Rather, they interact with each other and are manifested in meso-level processes (Adapted from McGaughey & De Cieri,)1999: 245).

The micro and macro factors always have certain influence on each other and they cannot be clearly separated and from this view originates the meso concept. Micro-level influences—for instance, those work preferences held by the top management team—can influence international, macro-level HR policies such as the adoption of a compensation or performance evaluation system. This interaction would function within a meso-level process such as the design of a unique reward system that aligns with the previously adopted macro-level policy (McGaughey & De Cieri, 1999). The decisions that are taken at these three levels can affect each other. Therefore the delicacy and complexities of process interaction within and across multiple level of analysis should be taken into consideration. As Quintanilla and Ferner (2003: 364) assert, “this suggests the need for less emphasis on grand tendencies and greater attention to how complex processes work themselves out in particular situations, often displaying elements of both convergence (in some respects) and divergence (in others).”

National culture.

The national culture and its effects on the feasibility of HR practices plays a vital role in determining the divergence and convergence among these cultures. Some theories state that There is a negative effect of greater cultural differences on the transfer and acceptance of HR practices from an MNC to a local subsidiary whereas others posits that when faced with a large cultural distance from a foreign subunit, corporations will seek to conform to local management customs (Gamble, 2003).

Sparrow et al.'s 1994 study of CEOs and HR managers from twelve countries worldwide distributed surveys and conducted a cluster analysis where cluster of 5 countries were identified, three of which were populated by only one country (Sparrow, et al., 1994: 278-279):

-Anglo-Saxon Cluster: United Kingdom, Australia, Canada, and the United States, Germany, Italy

- Latin Cluster: Brazil, Mexico, Argentina

-Cultural Island 1: France

- Cultural Island 2: Korea

- Cultural Island 3: Japan

“Significant differences based on national culture create differential effects with regard to the efficacy of HRM practices enacted by MNCs” this is very much evident from the identification of these clusters. Further investigation revealed that convergence across clusters was present for certain practices. The existence of such convergence in spite of divergent national cultures clearly signifies that international HRM can stay when other factors moderating the effectiveness of HRM practices in foreign locales are considered.

Institutional factors.

Country specific factors which arise from embedded, institutionalized systems of labor within main countries are of great consideration for assessing the degree of divergence and convergence existing within international HRM. These institutional factors include the breadth and pervasiveness of labor legislation and labor organizations, the basis of the financials system and investment activity, education and other training systems, the prevalence of social welfare systems, and the degree of organizational autonomy (Sparrow & Hiltrop, 1997).

Labor-force characteristics.

The convergence of international HRM practices is significantly affected upon by certain characteristics of labor force like general training and education levels and the demographic composition of national workforce. The influence which these factors hold on to influence decision-making and the implementation of global HRM practices at a national level is substantial as these factors are not pure and are product of national cultural and institutional factors. The most pervasive influence such characteristics have on the diffusion of common HRM practices is manifested through age composition of the workforce.

For example, Gamble's (2003) study of StoreCo, a UK-based retailer makes note of educational and age differences among employees in its domestically based divisions and those in its China-based subsidiary, DecoStore. While 18 percent of employees in its UK stores are over the age of 50 and the average employee age is 35, its Chinese stores employ a workforce with an average age between 27 and 28; beyond this, the age limit for employment is set at 45 (Gamble, 2003).

Gamble enlightens the reciprocity between institutional factors and national-cultural mindsets in creation of a set of workforce characteristics. The variations in education levels are the key in creating these differential labor forces - in the UK, many employees have significant experience and intimate product knowledge that creates returns for an HR system encouraging employment past the age of 50. Conversely, in China, company recruits lack that experience and knowledge. Thus, as a result of labor-force characteristics a HRM structure different from the in the UK emerged.

Presence of expatriates.

Presence of expatriates within subsidiary firms determines the propensity of global HRM practices which are to be accepted and implemented at national level. Expatriate managers are the most prolific method of exercising control of parent company in foreign subsidiaries. The presence of expatriate managers has been found to increase the similarity of HRM practices between the subsidiary and parent (Rosenzweig&Nohria, 1994) by encouraging stricter adherence to guidelines set by the MNC.

The Moderating Role of Organizational Culture

The role of organizational culture is perhaps the largest determinant of the global applicability of global HRM practices besides the significant role of national culture, institutional factors, labor-force characteristics and the presence of expatriates. Gerhart& Fang found that the role of country differences in determining the applicability of HRM practices was smaller than was previously thought. It, in fact, accounts for only a small amount of variance in HRM practice and holds little predictive value with regard to which practices are employed (2005: 979).

Instead, Gerhart& Fang conclude that organizational culture explains more—about twice as much— about the structure of HRM practices within affiliates than country-based distinctions (2005: 981). This conclusion is supported by results from Rosenzweig&Nohria, who determined that affiliates that are founded by the MNC, not acquired, “are not only relatively less like local firms at the time of founding, but also persist in their difference” (1994: 243). Given that organizational culture is the primary driver of the structure, acceptance, and efficacy of HRM practices, greenfield affiliates start with an advantage in the adoption of globally conceived HRM—they lack the necessity to overcome a previously existent organizational culture flavored and influenced by local isopmorphisms.

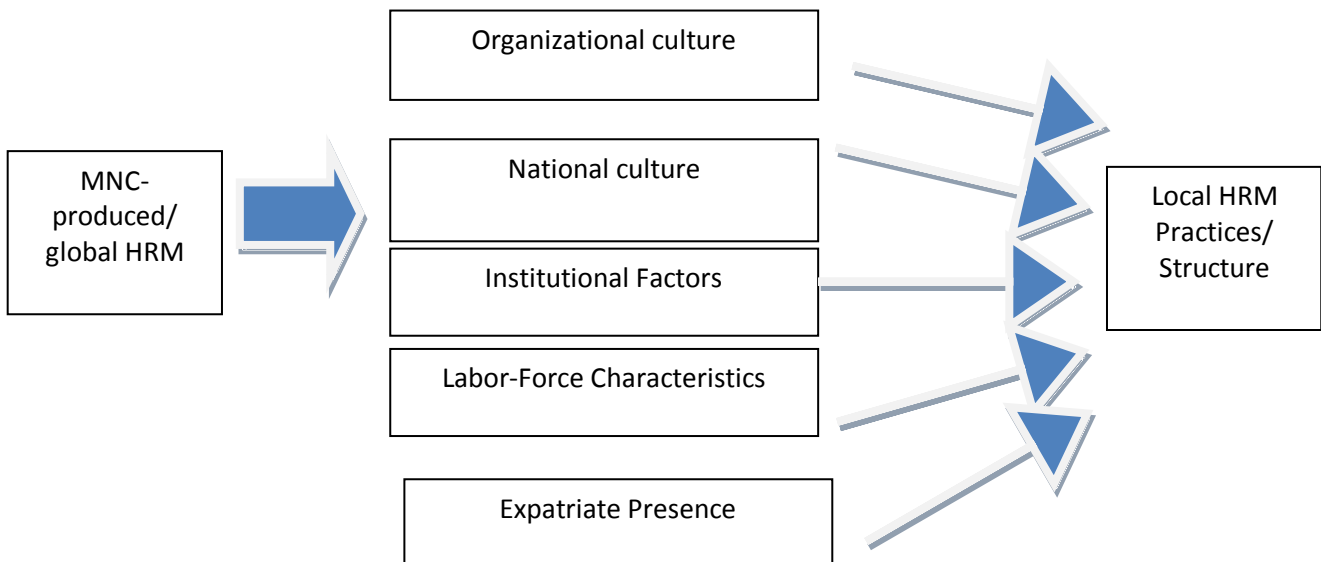


Fig. 2: The mix and effectiveness of global HRM practices is influenced by national culture, institutional factors, labor-force characteristics, and expatriate presence. Organizational culture, however, has the ability to dominate these other factors within foreign subsidiaries.

The expectations created through national isomorphisms is contradicted by the findings in which the presence and effectiveness of various HRM practices is stated. For example, Gamble (2003) reports that pay differentials between frontline employees and professional staff in a China-based retailer were higher than in its UK-based parent in spite of China's history of state socialism and its associated national-cultural and institutional remnants. Local employees openly accept a flat organizational hierarchy and open management in spite of national differences (Gamble, 2003).

Thus, while local isomorphisms can and do operate to negatively affect the applicability of globally conceived HRM practices at the level of the national subsidiary, the internal organizational culture of the affiliate can mitigate and, in fact, supersede many of these local effects.

Implications and Practice

Since there is relative inability to control many of the other factors that influence the national effectiveness therefore the importance of organizational culture's role in determining the applicability of HRM practices has major implications for practitioners. While there is relative stability of national culture, institutional features, and labor-force characteristics, both the strong influence of organizational culture and the fact that this influence can be controlled by HR managers within a MNC create a situation in which proactive action by managers can lead to the successful dissemination and effective use of HRM practices as desired by the parent company

According to a report by Development Dimensions International, the majority of international organizations are taking steps towards employing HRM practices that are consistent across all locations (Rioux, et al., 2006). The report indicates that practitioners in the field have taken several actions in trying to create cultural consistency:

- Communicated to all locations about a common corporate culture.
- Allowed local cultures to maintain their identity in the context of corporate culture.
- Established common systems (e.g., accounting, marketing, MIS).
- Provided management with education outlining how the company does business.
- Created an organizational mission with input from all locations.
- Created a written strategy outlining the corporate culture.

(Rioux, et al., 2006: 3)

By applying these precepts to their own international HRM efforts, HR managers can strengthen the influence of organizational culture and with it, their ability to withstand the pressures of local influence.

While organizational culture does provide a powerful avenue through which HRM practices can be consistently applied to operations in foreign countries, HR practitioners must also realize when coercive isomorphisms—i.e., those conventions that literally cannot be avoided such as employment legislation and the presence of works councils—force deviation from a consistent practice and respond to them accordingly. Especially as the EU grows in economic power and member countries strive to come into compliance with existing legislation, it is important that HR managers have both the correct skills and approach to deal with labor regulations that are unheard of in the United States. The organization can actually gain significant benefit from such interactions if managed properly.

The top priority for MNCs should be effectively managing the expatriate workforce provided the importance of managing organizational culture as well as the significant role expatriate employees play in that process. Expatriates serve as a vital link between the parent company and the foreign subsidiary, especially with regard to the communication and dissemination of organization-wide directives (Rosenzweig&Nohria, 1994; Gamble, 2003). Thus, effective management of selecting, training, and retaining expatriates is essential.

Assessment of personality is an indispensable in the selection of employees for foreign assignments. Citing that the actual location of an expatriate assignment has little effect on its eventual success or failure, personality truly emerges as a primary driver of success. And often, personality is the key to success” (Silverman, 2006). In order to accurately assess personality, organizations should employ available personality tests for potential expatriates while taking note of prior job performance as well as competency assessments. Additionally, acquiring HR staff with experience in international assignments helps to ensure that expatriates are matched well with their respective assignments (Silverman, 2006).

Another key task for HR is managing organizational culture in order to ensure the success of expatriate employees on assignment. For instance, national culture may dictate a patriarchal society in which women do not traditionally take on roles within the business world. However, by managing the organizational culture of the foreign subsidiary in such an environment, MNCs can help ensure success even in the face of prevailing national-cultural norms. To achieve this, MNCs should provide their expatriate employees with as much information as possible at the start of their assignments as well as training specific to the cultural environment into which the employee is entering. For a woman expatriate taking a position in a patriarchal culture, this could include “extensive, gender-specific cross-cultural training” (Ramirez, 2006).

Additionally, the MNC and the HR department should work hard to establish the credibility of the new expatriate employee within the foreign affiliate (Ramirez, 2006). The last major challenge facing HR in MNCs is retaining returned expatriate employees (repatriates) and

ensuring that the organization capitalizes on the experience and knowledge acquired during foreign assignments. As employees return, they often look to make upward moves due to their improved understanding of the organization. If these opportunities don't exist, they are likely to leave and take their knowledge, along with the potential benefits it offers to future expatriates, with them (Tyler, 2006). In order to avoid this situation, employers should establish clear expectations of the assignment as well as "conduct post-assignment career planning before the individual leaves" (Tyler, 2006: 99). Other suggestions include providing repatriation assistance in the form of help with relocation back to the home country.

By following these general guidelines—leveraging the power of organizational culture at the national level to create consistency across all operations, recognizing and responding to coercive isomorphisms, and successfully managing the expatriate workforce—MNCs can maximize the utility they receive from their global HRM practices while moving toward the uniform application of such practices across all units of the organization.

Conclusion

Research has demonstrated that the applicability of globally conceived HRM practices at the level of the nationally-based firm is influenced by several factors including the institutional structure of the host country, labor-force characteristics, the presence of expatriates, and national culture. Perhaps the greatest impact within the subject of global HR, however, comes from the realization that national culture, which often dominates consideration of the applicability of parent-company HRM practices abroad, is not the primary determinant of HRM practice acceptance and effectiveness. As Sparrow & Hiltrop elucidate, "the 'culture-bound' perspective runs the gauntlet between generalizability and stereotyping and fails to consider the equally pervasive impact of both individual differences and organizational choice over resource development" (1997: 215).

Rather, HR professionals possess a unique opportunity to tailor HRM practices within their respective organizations to support the goals of the entire organization. While anecdotal evidence of convergence between HRM practices is present, divergence among practices, especially in the presence of coercive isomorphisms does exist and will continue to do so. However, convergence of HRM practices will likely increase with time, as outlined by Sparrow et al. (1994):

-As markets continue to shift towards a greater service orientation, firms across all countries are likely to find it beneficial to empower their employees and create egalitarian environments in which employees can utilize their knowledge through involvement and participation in business decisions and workplace tasks.

- Work practices will continue to become more flexible as the skills and abilities necessary for work change and decision making becomes less centralized throughout organizations.

- Rewards practices will converge toward more performance-based compensation with greater sharing of rewards and risks among all members of organizations.

- As workers become more valuable to organizations because of increased reliance on employee knowledge for business success, the costs of losing employees will increase.

-Organizations will continue to increase the clarity and transparency with which they communicate to employees about organizational goals in order to further empower their workforce and ensure that employee decisions align with the objectives of top management.

(Sparrow, et al., 1994: 293-295)

As the cases of the adoption of a flat organizational hierarchy and performance-based pay in formerly socialist-based Chinese business structure indicate, the effective management of organizational culture at the firm level for foreign subsidiaries can lead to the adoption of HRM practices in line with those being used in the rest of the world. By taking account of differing circumstances in foreign firms, but realizing that those differences are not the most significant determinants of what will and will not work in a specific location, HR professionals will then be able to maximize returns both at the subsidiary level and for the global MNC as a whole.

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