

Theoretical Review of Critical Factors that Impact on Global Human Resource Practices: Case on Multinational Companies in Emerging Economies

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Abstract.

Purpose

The aim of this review paper is to critically analyse those factors which influence upon the way human resource practices are worked-out in MNCs particularly those that operate in emerging markets like China & India. These factors comprises internal factors and also external factors that play their pivotal role in shaping the said HR practices like recruitment & selection, compensation, remuneration, training and development, etc. and therefore these determinants if truly taken into consideration by multinational corporations increase the likelihood of success that these companies know better ways in order to attract, develop and retain employees that keep potential, skills and capabilities with them. For firms whose strategic focus is on its employees do prosper and can earn competitive advantage against their counterpart even if they are operating in developed countries. Hence, in order to highlight those critical determinant/factors the conceptual framework completed by Mohan Thite, Adrian Wilkinson & Dhara Shah on the research subject of internationalization and Human resource strategies in MNCs of emerging markets. After having gone through the literature we come to know that the conceptual framework keeps some gaps in itself and doesn't include other important and critical factors which have been proposed by our research in form of extended conceptual framework like for instance, strategic role of HR department, high performance work system (HPWS), corporate social responsibility and its link with HR practices and many more.

Value

This research keeps significance for those MNCs which operate in emerging markets. Despite the fact that stiff competition, advance technological interventions, globalization have made very much difficult environment for MNCs to earn success in form of competitive

advantage in the industry, companies can lead from the front if they manage to utilize their workforce potential in the right direction. To achieve this end companies will have to deliberate upon internal and external factors that exert influence over their HR practices as it is well known to everyone that if organizations want to gain competitive or even comparative advantage they need to take their human resource as a strategic asset not merely as an input for work process.

Conclusion

It has been concluded that if MNCs really want to outperform in emerging markets those should have to take all concerned critical factors into consideration which are significant for bringing success to them in form of outcomes that are to be generated by capable workforce MNCs have got with them. Thus, all depends on the way MNCs attract, develop and retain their human resource which is composed of diversity and get affected by multifarious challenges and from the organizational point of view it gives glimpse to the solution of problems that arise from forward or reverse diffusion to MNCs.

Keywords: Human Resource Practices, Competitive Advantage, Multinational Corporations, Emerging Markets, Capabilities Diffusion.

1 Introduction

By this time when every body is going through very fast pace to get ahead of ferocious competition prevailing in domestic and international markets. Every company is also putting forth best of it to come over all those concurrent and perplexing issues that could make them come by success and achievements irrespective of how big their competitors are. Amongst many factors that suitably enables an organization to have competitive advantage, that seems to be only source of survival today, those factors are also very much important that related directly or indirectly while managing human resources in international perspective.

There are many organizations which keep their human resources in better high value and also train and develop them accordingly. On the contrary, others do take care of profits only nothing except that. In this current research we are going to make an analysis as how organizations make their way through in building their human resource as a pivotal source of competitive advantage while taking into consideration various major and minor factors/variables that impact the policies and practices in human resource management when those organization trespass the geographical boundaries of their country in which they really exist. The research to be conducted is more likely to be qualitative in nature. However, it would be reviewed deeply from already researched work that what practices are involved in designing HR strategy and which factors do influence the way the said HR strategies are designed or implemented.

For gaining the research objective a profound look is required to have an understanding of the situations in which particularly Multinational Corporations performs their Human resource management policies and practices; thereupon it would be observed as which factors do curb the likelihood that MNCs will execute the said policies and practices successfully.

After having analyzed different researches made in response to know the arising importance of Human resource practices, it is observed that there has been little work done particularly to know about HR practices that are followed in MNCs which operate in emerging countries like India, China, etc. however by integrating different studies and analyzing the research made by Thite, Wilkinson & Shah on internationalization & HRM strategies across subsidiaries in MNC from emerging economies, we can figure out different categories of variables/factors that not only influence upon the employees working out there in those MNCs but also largely affect the way of their businesses. Having known that if MNC really want to have strategic competitive advantage in marketplace, it becomes possible if the organization is doing well in respect of giving importance to its human resource, its capabilities, skills and competencies and also number of factors that are related to corporate level of the organization. For instance, how much organization is giving importance to corporate social responsibility which is not merely the concept as how much firm does good with the society rather it also includes the way the organization utilizes and manages its human resource by having socially responsible behavior like for example, how to elevate the wellbeing standard of employees at work is a matter of paramount importance for the firm. Therefore, in this manner different factors have been observed throughout this research; which critically impact on HR practices of an MNC in emerging markets. These include internal and external factors; in which internal factors are said to be those which are somehow or somehow in control of the organization and external factors would be those which are not under control of an MNC. For example, internal factors can be training and development of the human resource with strategic focus on it and its resultant relation with the performance of the organization, non-local competencies, alignment and realignment between HRM and organizational strategy, workforce diversity in the form of HCN, PCN, TCN and inpatriates, strategic role of human resource department, internal pressure within the organization and employees' related factors that is to say work, nature of work, remuneration and compensation, taxation, recruitment and selection, cross-cultural issues for expatriates, etc.

On the contrary there are also external factors like for instance economic situation in host countries, political pressures and the national culture prevailing in host countries, the level of control, coordination and communication that take places between subsidiary and its parent firm, pace of globalization, compliance with employee safety standards, technological advancements and its intervention into business processes, location of MNC from which it originates, etc.

It is to be notified that both internal and external factors that keep influence upon an MNC and its HR practices, forces the entire organization to do well in view of upgrading employees standards in terms of their working and also in terms of how much they are being given weight age as being employee of that MNC. Thus the ultimate goal of a successful MNC always remain to be an outperforming company by means of attracting, developing and retaining the pool of talented workforce at the workplace which can in turn become a likelihood of attaining complete advantage that is also to be sustainable for sure.

2 Literature Review

The phenomenon of globalization has genuinely led to creation of huge companies which aspire to expand their operational activities across multifarious countries

(Touron, 2008). Big companies do vary on wide spectrum in respect of their **strategically prevailing position, structure of the organization and processes of the management** itself. One of those existing type of organizations is multinational organization whose very primary and basic characteristic involves its sensitivity and the extent to which it tends to be responsive when it comes across different **environments particularly the national one**. It occasionally comprises multiple portfolios of national units which operate independently to each other (Bartlet & Ghoshal, 2000). MNCs in emerging economies seems to be small in **size along with least resources and experience** that is required internationally as compare to their counterparts prevailing in developed countries. (Thite, Wilkinson, & Shah). It is observed that 500 largest multinational organizations prove to be key leaders for being driving force in terms of globalization of multinational companies in future course of time, which also include firms situated at developing and emerging markets around the globe (Martelli & Abels, 2011). Study conducted before reveals a strong tendency from the side of students for preferring MNCs as compare to small and/or medium level firms when it come for them to make first choice in terms of their career (Teo & Poon, 1994; Moy & Lee, 2002 as cited in Gokuladas, 2010). Market perplexity as well as **trends related to internal organization** besides the development do have alter the manner of these firms when it comes to organize the activities globally or/and locally, in terms of their assets no matter tangible or intangible in nature. However apart from the whole discussions held before one thing turns out to be common is that as drastic changes occur in competition so as the effectiveness of the multinational companies' conventional approaches gets reduced (Michailova & Nielsen, 2006). Moreover, according to comparative institutional approach multinational corporations along with their subsidiaries are likely to be influenced by many factors like **way of thinking, behavior, structure and operating models** prevailing in those countries from which these corporations originate (Whitely, 2001 as sited in Chang, Smale, & Tsang, 2013).

Multinational companies are most of the time criticized for **stepping on cultures forcefully** and the **existent diversity** across the world and these seem to be embarking upon the journey to those countries where different standards are either weak or they even don't exist for instance **safety standards, governance, employees wellbeing standards, etc.** But at the same time these companies proved to be the transformers for having brought the learnt behavior, over a long span of time, to the new emerging markets encompassed with the ways to gain socially responsible status comparatively at **low cost** against what happens to be in developed economies. In economist the **social responsibility** is defined as how to generate wealth for their stakeholders, putting people towards work, uplifting the standards of living besides contributing their earnings to communities around them (Prout, 2006). In addition to that Baden et. Al., (2009) as cited in (Adebanjo, Ojadi, Laosirihongthong, & Tickle, 2013) highlighted **employees and staffing challenges/issues** an additional classified category so as far CSR is concerned. Human resource works as only the sole function in the whole organization that has considerable influence over the people at work and also impact over the whole organization for all times to come. HR management becomes quite handful in fostering the CSR culture into entire organization. Thus the **CSR-HR** has got connections between them. Looking at emerging evidence at present, if CSR is very well implemented, then CSR can make a significant and strong influence in maintaining the staff, developing the staff & retaining the staff as well.

Internationally HR managers are making an all-out effort in developing & also implementing appraisal system and incentive programs that bring forth sustainability in hiring people for work who also are to uphold those CSR values. (Strandberg, 2009).

Apart from economic downturn and unemployment, extremely advance countries like Japan and USA will be facing a shortage of talent over a long period of time due to the **retirement of the generation** called baby boomers and therefore, there seemed to be more people are retiring as compare to the people entering the job/labor market (Kapoor & Sherif, 2012).

Some economic factors also have an influence upon the propensity of Multinational Companies to invest abroad such as cost-related determinants, **factors relating to market** itself, how much **people of that organization keep local knowledge** besides **availability of technology** (Zvirgzde, Schiller, & Diez, 2013). While discussing the **strategic role of human resource department** of an MNC; the role of operations of its subsidiary Human Resource department in the host country be kept in consideration with enough focus on it (Sumelius, Smale, & Bjorkman, 2009). Similarly, many factors like **globalization into businesses**, emerging technologies, **volatile effects over nature of work and types of work**, **different sort of skill requirements**, **declining trend of unionization**, ever **rising professionalism of human resource practitioners** as well as researchers besides devolving employment severe conditions played a pivotal role in the development of HRM and its various practices and theories (Bach & Bordogna, 2011; Rau, 2012; Tissen et. al., 2010 as cited in Ananthram, Nankervis, & Chan, 2013). **Philosophy and the approach used by top management** of the organization assists designs and influence the overall IHRM system; exclusively the system that is destined to be utilized in abroad gets facilitated (Thite, Wilkinson, & Shah). It is further argued that **organizational pressure that are said to be internal** play a significant role by putting immense influence on Human resource recipes and the way those are delivered (Brewster, Sparrow, & Harris, 2005). **Therefore, on one side the pressure on MNC is to respond locally and on the flipside of the coin there is a need of global integration along with the consistency within the framework of an MNC** (Myloni, Harzing, & Mirza, 2006). However, merely confined to focus on strategic issues, sometimes human resource department leaves employees in isolation for not being in direct contact with them and therefore, this disconnection may bring them into a vulnerable situation due to the fact that Human Resource department becomes incapable of raising employee related issues in front of the top management of the company (Gilbert et. Al, 2011 as cited in Najeeb, 2013).

Amongst human resource management functions **training and development** is considered one the most integral function that influences upon the level of quality of human resource of the organization and resultantly also have **strong effect on the performance of the organization** (Losey, 1999; McDonnell, 2008 as cited in Sheehan, 2012). It is also argued that IHRM practices are mostly influenced by the **country of origin** in which MNC lies despite the fact it has got high or even low cultural context (Thite, Wilkinson, & Shah).

Sometimes few **non-local competencies**, that once developed in the parent company headquarter or even at subsidiary becomes **transferable**, enables multinational companies to maintain **competitive advantage** in the whole world (Borini & Fleury, 2011). Similarly, take resource based theory which transcribes that in order to gain and manage competitive advantage for the better interest of the MNC; **HRM needs to be in alignment** with the specifically defined organizational competencies (Barney, Conner, 1991 as cited in Myloni, Harzing, & Mirza, 2006).

Even in global marketing academic literature the burning issue that still continues related to the control of multinational companies over operations made in the foreign markets. Notwithstanding the fact that importance of having control on foreign operations that is kept in mind of global marketers, that is a **very costly** to do in form of initial investments & while sacrificing the autonomy of their foreign operations (Dong, Zou, & Taylor, 2008). It is further argued that HRM system makes use of **control mechanism** which is put in place to monitor that employees in overseas subsidiaries are working in the very best interest of the MNC and that the HRM system can be a **High performance work system (HPWS)** usually used for and considered important for control mechanism. Therefore, research evidence exhibits that both HPWS and strategic HRM orientation are said to be crucial for attaining the MNC goal while contributing its performance and very important aspect of both is that these create a leverage of Human resource capital of the firm and bring competitive advantage for the firm in definite terms (Foley, Ngo, & Loi, 2012). Many of the researches have taken into account corporate level context such as international strategy for competitiveness, experience of international business besides the influence of values that management places in line of HRM, and also spotlights the relationship that lie between parent and the subsidiary including many aspects like communication and the control (Beechler & Yang, 1994).

Hofstede, 2007 as cited in (Thite, Wilkinson, & Shah) argues that so as far emerging economies MNCs are concerned, *decision making style, culture of the organization & control over subsidiaries* is altogether very much different from that of those MNCs in developed countries because of their national culture & the difference that lies economically. Many academicians have noted that MNCs tend to adopt adaptive also called polycentric approach in the developed economies as compare to least developed economies due to the fact that MNC becomes successful in getting strong availability of skills required by managers (Bazeley & Richards, 2000 as cited in Thite, Wilkinson, & Shah).

Many academicians also went further to state that many factors at present are influential with respect to international human resource management for instance, **employee related issues** like visa-immigration, **cross cultural issues, firms strategic focus, dual couple career challenges, remuneration, cost management, recruitment and selection issues and taxation** (Cieri, Fenwick, & Hutchings, 2003). The complexity and perplexity while operating in many different countries involves the deployment of different categories of workers like expatriate, host country nationals, third country nationals and inpatriates that fuels up **diversity in the organization** and these also make a line of demarcation between domestic & international HR management and that is quite different to the number of HR practices involved in HRM (Kiessling & Harvey, 2005).

The conceptual framework that has been proposed by *Mohan Thite, Adrian Wilkinson & Dhara Shah* discussed in literature review has been extracted (shown in Figure 1) and highlighted below for better comprehension of their work. However; the conceptual framework, afterwards, has been extended in our research to highlight critically significant factors both internal and external ones which impacts on HR policies and practices of multinational corporations that operate in emerging markets.

2.1 Figure No. 1

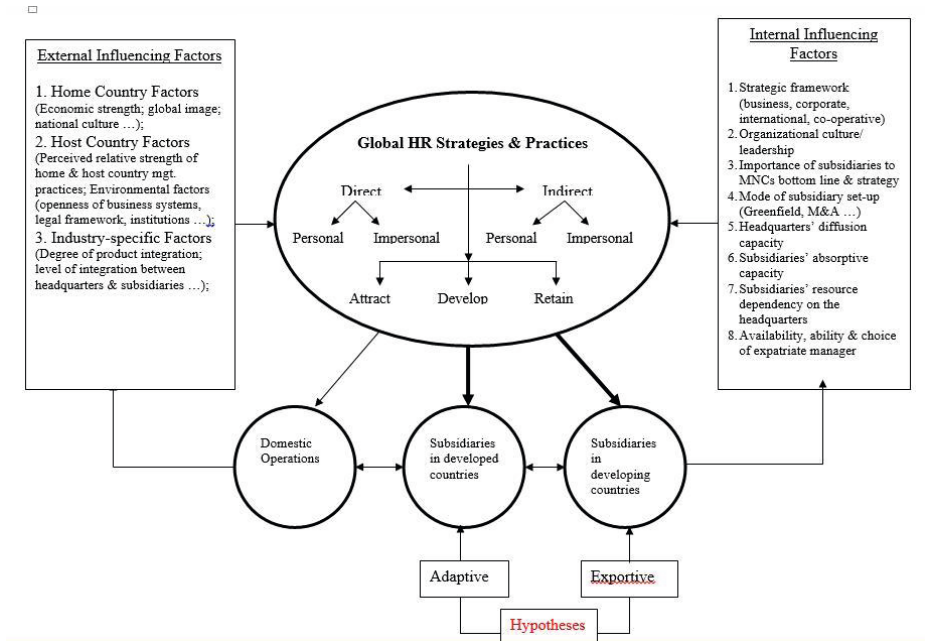


Fig. 1. Diffusion of Global HR Strategies & Practices across Subsidiaries in a Multinational Corporation from an Emerging Economy

3 Findings and Analysis

After having gone through the whole literature published by eminent academicians and research in different point of times we have analyzed various variables/factors that truly impact on the HR practices of Multinational companies particularly in emerging markets like China & India where power distance, for instance, is very much high and where due to cost constraint High performance work systems have not been put in place by MNCs. This review is a kind of critical analysis over the *work of Mohan Thite, Adrian Wilkinson & Dhara Shah on the matter of internationalization and Human resource strategies in MNCs of emerging marketes* and hence the conceptual framework they have been produced; particularly remained the focal point of interest during our research. The said conceptual framework seems to highlight different factors that influence upon HR practices of MNCs operating in emerging markets and the factors like internal ones and external ones play their role in designing the way through which MNCs attract, develop and retain their human resource capital which can lead the firm towards having competitive advantage.

However, after review the literature this research has brought forth some critical factors that has not been made as a part of that conceptual framework. Critical here refers to the sensitivity they hold with themselves. Like for instance, the role of corporate social responsibility seems to be very critical for the success of the MNC in the sense that if the firm considers its employees as an asset not merely work input

this would be a strategic move for the firm to earn them competitive advantage over their counterparts. Likewise, the other factor is to implement high performance work system at subsidiaries which comprises a full fledged control mechanism for resource monitoring for the parent company. American MNCs have been using that system at their subsidiaries but unluckily due to its high cost mechanism it has not been implemented in Asian region MNCs on a wide spectrum. Next comes the role of HR department, which is to be considered more important so as far its strategic significance is concerned. If the subsidiary HR department doesn't coordinate well with the parent company, this is supposedly called an isolated HR department with no significance at all. However, if the department is in direction of taking employee as an integral part of the whole process, it will raise the voice of employees in parent company meetings and sessions and that's how through this move the subsidiary would have far reaching effects over its performance. Again the conceptual framework lacked different variables that particularly related to employees or group of employees working in MNCs of emerging markets domain. Employees concurrent issues like compensation, taxation, their safety and wellbeing standards do influence the way through which employees are developed & also retained at MNCs. On the contrary, the experience and age of MNC also plays a pivotal role and even it exerts influence the way employees are taken care of. Suffice to say here that subsidiaries of MNCs in emerging economies lack resource and capabilities that are not found to be witnessed in the parent country, though. The bigger the size of the company the more challenging it would become to deal with the diverse workforce and to address their arising challenging issues like for example as how to control that workforce. Likewise the role of employees' training and development is very much crucial due to the fact that organizations seek the capable, loyal employees at workplace who turn out to be very much helpful in bringing alignment in the firm's strategy and its various units strategies. Therefore, it is also well known and stated before as well that HR department adopt a pivotal role to play as the decisions it makes affect the whole organization entirely.

On the other side, the framework has less talked about external factors which though not under the control of the MNC while it is to operate overseas; these need to be put into consideration by the parent company. For instance, there is a rising trend of the phenomenon that particularly in USA and Japan the older generation called baby boomer is near to retirement stage and interestingly both the countries are hardly expecting their replacements with fresh blood as they are not in such number as well. Likewise, most of the multinational corporations do step up host country cultures forcefully which is not seen good and certainly not receive respect from the customers out there. Same is the case with ever changing technological advancements in the industry which put MNCs in a messy situation and all this come through the phenomenon of globalization and the pace attached to it. Large western companies are making full use of being globalized and finding many ways to look for staff fueled up with skills and competencies which can bring the company a sustainable comparative advantage if not competitive advantage.

3.1 Figure No. 2

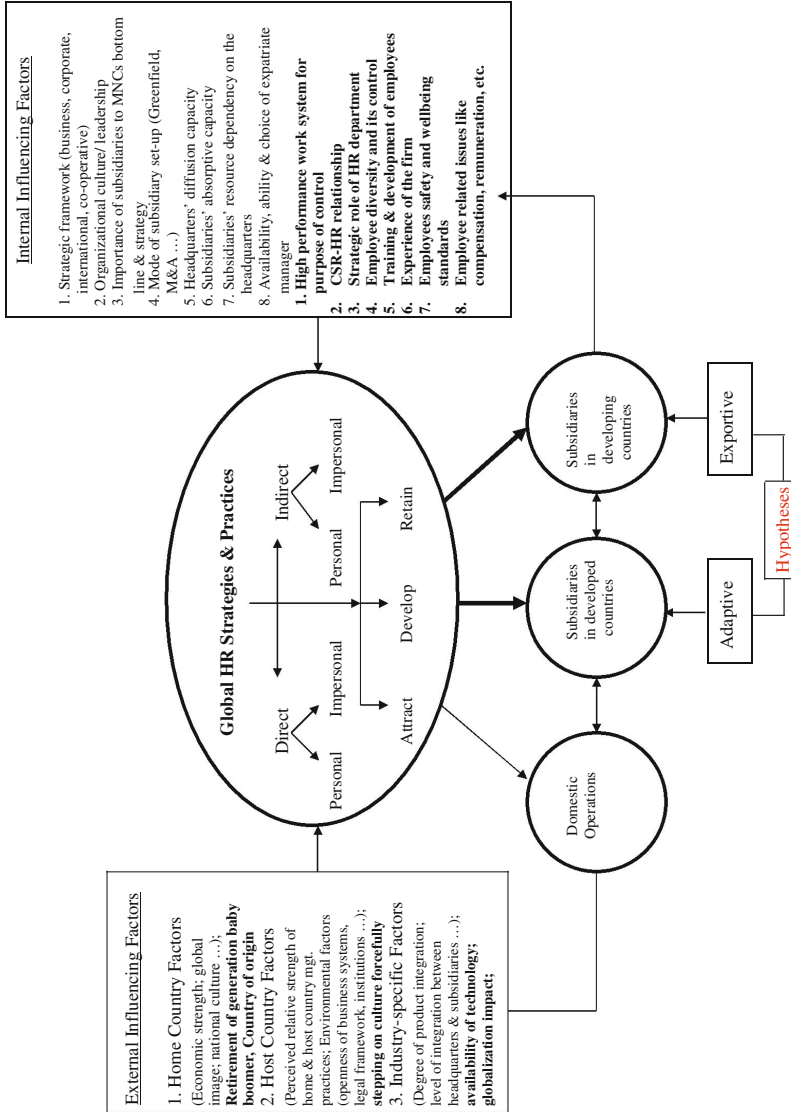


Fig. 2. Diffusion of Global HR Strategies & Practices across Subsidiaries in a Multinational Corporation from an Emerging Economy

Limitations

So as far the limitations are concerned to the extent of this review paper; we may go on to analyze these as below:

- Firstly, this review paper focuses solely on the conceptual framework made by Mohan Thite, Adrian Wilkinson & Dhara Shah and doesn't take into account other models having different concept involved into them.
- Secondly, there are certainly different perspectives to think about the topic in discussion but this review has been made focusing only the evolving natures of variables. Other different variables that are not obvious could not be identified.

4 Conclusion

If we put all said above together we may conclude that in order to be successful and to gain competitive advantage in the current arena of globalization and technological advancements; multinational corporations will have to strive for attaining capable workforce, though diverse in nature having diverse nature of works and tasks associated with them. For achieving this end the parent companies in emerging markets or the subsidiaries that are operating in emerging markets and whose parent headquarters found to be in developed countries, MNCs have to take into consideration internal and external factors which do influence human resource practices like recruitment and selection, compensation, managing expatriates, inpatriates, dual couple career challenges, minimizing costs related to managing human capital, etc. These factors are also of immense important in the sense that these *variables exert a far reaching impact on human resource practices of MNCs at times of attracting, developing and retaining capable, competitive workforce.*

Therefore, the conceptual framework has not included those critical factors that our research has proposed in the extended framework like high performance work systems, strategic role of human resource department, the role of employee training and development, the linkage between corporate social responsibility and human resource practices, numerous employees related issues like cross cultural issues, firms strategic focus, dual couple career challenges, remuneration, cost management, recruitment and selection issues and taxation. On the contrary our extended proposed model contains various external factors like globalization, technological advancement, country of origin of an MNC, cultural diversity and how to manage this diversity, retirement of baby boomer generation which would also affect the emerging markets at times when "forward or reverse diffusion" of capability will be required.

In a nutshell, we may come up with the fact that MNCs operating in emerging markets like China & India lag behind in terms of resources and experience than those counterpart happened to be in developed economies; should have to take these critical factors into their immediate consideration because this is the only way through from difficulty that MNCs face during their stay out there and these companies would therefore become able to better attract, develop and retain their workforce which could bring them competitive advantage if not more.

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