
Research Article

Human resource management practices at foreign-affiliated companies in least-developed regions: US and Japanese Companies in Nepal

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Abstract On the basis of 16 qualitative case studies of the US-affiliated, Japanese-affiliated and local Nepali companies, we investigate how the context of Nepal as a least-developed country influences the way MNC affiliates implement human resource (HR) practices. Our findings indicate that institutional distance can promote, rather than impede, the transfer of HR practices, as long as the practices are able to address local needs. The findings also suggest that the nature and needs of the local labor market are stronger predictors of the transfer of HR practices than those factors identified in extant international human resource management frameworks, such as institutional and cultural distance.

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Introduction

MNC subsidiaries are extensions of their parent company and thus subject to replicating the parent characteristics. The local context, however, imposes a pressure to follow local approaches. This transfer-adaptation dichotomy has long been debated in international business research (for example, Doz and Prahalad, 1984; Rosenzweig and Nohria, 1994; Lu and Bjorkman, 1997; Bartlett and Ghoshal, 1999;



Rosenzweig, 2006). Most studies on this theme are based on developed countries, although recently the focus has been shifting toward emerging countries. Either way, the repertoire of international human resource management (IHRM) has become rich with theoretical constructs. The generalizability of these constructs has been questioned, however, as an HR framework developed from studies on a developed country might not adequately explain practices prevalent in, for instance, a developing country, due to the differing socio-cultural and institutional backgrounds (Budhwar and Sparrow, 2002).

Hence, the transfer of practices prevalent in the parent company from a developed country to a foreign subsidiary in a developing country may be problematic. At the other extreme, the lack of standardized practices in host countries may demand the transfer of HR practices from developed nations, and local companies in developing countries are tending to follow HR practices similar to those of foreign MNCs (Chen *et al.*, 2005; Latukha, 2015).

For the setting of this ongoing debate, the focus area of this study is the HR practices of MNCs in a least-developed country. Least-developed countries may pose unique cultural and institutional environments, as they are at the bottom of the development scale among developing countries (Cuervo-Cazurra and Genc, 2008). The United Nations defines a least-developed country as one with very low income, weak human capital and high economic vulnerability (UN, 2014). It appears that the distinctive features of least-developed countries might demand a context-specific blending of HR practices as well as the transfer of practices from developed-country MNCs. We aim to verify and explore this phenomenon in this study.

The success and sustainability of companies operating beyond boundaries depend on how effectively they manage to implement suitable practices in a distinctive cultural and national area. Among these practices, human resource (HR) practices are the most localized management functions (Rosenzweig and Nohria, 1994). IHRM researchers have investigated the way multinational companies (MNCs) establish HR practices in their foreign subsidiaries or affiliates (Perlmutter, 1969; Rosenzweig and Nohria, 1994; Bartlett and Ghoshal, 1999; Myloni *et al.*, 2004). Although the number of studies on this topic is growing, the HR practices of MNCs in their affiliates in least-developed countries and the underlying reasons behind applying such practices in such countries are less understood. Thus, it is important to investigate the HR practices of MNC affiliates in such countries to advance the IHRM field.

From the HRM perspective, the distinctive characteristics of least-developed countries compared with developed countries are that HR practices in least-developed countries are not clearly established or standardized. For example, most companies in these countries are small, and small companies tend to manage their people in an *ad hoc* manner (Agrawal, 2009; Dessler, 2009). However, MNCs are assumed to have standardized HR practices followed at headquarters or subsidiaries in other parts of the world. Then, do MNCs transfer their standardized HR practices to a least-developed country, or do they just go for *ad hoc* practices, as mostly



prevalent in these countries? Or do they establish more structured HR practices than local companies by making the most of their status as MNC affiliates in a least-developed region? Moreover, could the extant IHRM theoretical frameworks explain the HR practices of MNCs in a least-developed country? If not, how should the extant frameworks be modified or extended when applied to least-developed regions?

On the basis of the above, in this article we investigate the HR practices of foreign-affiliated companies in Nepal, one of the least-developed countries in South Asia. We focus on the US-affiliated and Japanese-affiliated companies along with local Nepali companies, and investigate their HR practices. We chose the US- and Japanese-affiliated companies because of the sharp contrast in HR characteristics between the United States and Japan. Furthermore, both the US and Japanese management styles are frequently referred to as 'best practice' (Smith and Meiksins, 1995; Pudelko and Harzing, 2008). We are interested in how the distinctive characteristics of Nepal as a least-developed country influence the way US- and Japanese-affiliated companies set up their HR practices there. Our main research questions in this study are threefold:

1. What HR practices do US-affiliated and Japanese-affiliated companies follow in Nepal? And why?
2. How do the characteristics of the Nepali context influence the way HR practices are established in MNC affiliates in Nepal? And why?
3. In what ways do Nepali companies and MNC affiliates differ in their HR practices? And why?

Theoretical Background

Several theoretical frameworks have been developed in the field of IHRM to understand the HR practices of MNCs' foreign affiliates (for example, Perlmutter, 1969; Rosenzweig and Nohria, 1994; Ferner, 1997; Pudelko and Harzing, 2007). These frameworks basically show that MNCs face two opposing pressures – whether to follow local practices (localization or adaptation), or to implement parent practices (standardization or country-of-origin effect).

First, some frameworks predict that the distinctive political, structural, cultural and social features of different countries cause cross-national differences in HRM (Budhwar and Sparrow, 2002; Jackson, 2002; Myloni *et al*, 2004), which represents a strong environmental pressure on MNC subsidiaries to localize their HR practices (Taylor *et al*, 1996; Schuler *et al*, 1993). The cultural approach views different nations as having different cultural dimensions, which makes for differences in HR practices, as with most management functions (Hofstede, 1991, 1998; Trompenaars and Hampden-Turner, 1998; Myloni *et al*, 2004). The institutional approach explains that organizations operating in a given institutional environment face pressures to



follow particular practices. Such an institutional environment includes laws, rules, social values, norms and assumptions (Scott, 2001). For example, some practices should comply with labor legislation (coercive isomorphism), some need to be imitated to avoid uncertainties (mimetic isomorphism), while some may require modification based on the professional networks of managers (normative isomorphism) (DiMaggio and Powell, 1983). 'Moreover, since an MNC affiliate, in most instances, has little choice but to hire its employees from competitive local labor markets, it is hard for it to diverge too much from local norms' (Rosenzweig and Nohria, 1994, p. 231).

Whereas, the aforementioned cultural and institutional characteristics of a host country may limit the transfer of HR practices, other theoretical frameworks rather predict that MNCs tend to transfer their practices to subsidiaries. For example, the standardization approach states that MNCs seek to develop a consistent approach to maintain balanced policies and procedures across subsidiaries. They thus pursue standardization toward more distinctive practices in their subsidiaries, based on those employed at the parent company or some other global standards (Prahalad and Doz, 1987; Rosenzweig and Nohria, 1994; Pudelko and Harzing, 2007). Likewise, the country-of-origin effect suggests that the HR practices of MNCs' foreign subsidiaries are likely to be influenced by practices prevalent in the MNC's home country (Ferner, 1997; Harzing and Sorge, 2003). However, Kostova and Roth (2002) argue that the implementation of transferred practices does not guarantee the success and sustainability of the subsidiaries unless the transferred practices are internalized. 'Internalization of practices is that state in which the employees at the recipient unit view the practices as valuable for the unit and become committed to the practice' (Kostova and Roth, 2002, p. 217). Bjorkman and Lervik (2007) further mention that the transfer process encompasses implementation, internalization and integration. Although it is important to consider cultural and institutional distance, it is equally important to pay attention to organization-internal factors. Employees do not develop a positive attitude toward transferred aspects unless they are consistent with their own values (Kostova, 1999).

Within the 'localization versus standardization' framework, the literature has identified differences among MNCs in the way they manage HR issues in their foreign affiliates. For example, the US MNCs perform strong headquarter interventions in HR issues (Tayeb, 1998; Martin and Beaumont, 1999). They are centralized and ethnocentric (Muller, 1998; Edwards and Ferner, 2002). The centralization is associated with a high degree of formalization (Bartlett and Ghoshal, 1999; Harzing, 1999). Policies and practices of the parent company are diffused to subsidiaries through precise and formal systems based on written guidelines (Bartlett and Ghoshal, 1999; Ferner *et al.*, 2004). Japanese MNCs are also known for strong centralization. However, while the control mechanism in the US MNCs is based on formalization, in Japanese MNCs it is through expatriates (Harzing, 1999). Japanese management practices are more based on tacit knowledge created by Japanese culture

and the managerial environment in Japan (Nonaka (1994) Abo, 2006, 2015). Expatriates are used as cultural carriers (Harzing, 2001), and subsidiaries with a higher number of expatriate managers are likely to adopt the management practices of the parent company (Rosenzweig and Singh, 1991; Rosenzweig and Nohria, 1994; Lu and Bjorkman, 1997). Thus, Japanese MNCs practice informal centralization through direct control by expatriate managers (Bartlett and Ghoshal, 1999).

Many of the above theoretical frameworks were developed based on studies conducted in developed countries, and we know little about whether the extant frameworks might also apply to IHRM issues in a least-developed country. In particular, it is little understood how the characteristics of a least-developed country may influence MNCs' HR practices.

Research Context

To understand the research context of this study, we present a brief introduction on Nepal. We further present the major characteristics of Nepali-style HR practices as well as the US- and Japanese-style HR practices. Table 1 offers a resume on the differences among these three.

Nepali context

Nepal is a young country with 40 per cent of its population under the age of 15. It is estimated that each year 377 000 people on average enter the labor market (Khare and Slany, 2011; Serriere and CEDA, 2014). The country had economic

Table 1: HR practices in Nepal, the United States and Japan

<i>Nepal</i>	<i>The United States</i>	<i>Japan</i>
<i>Recruitment and selection</i>		
No uniform recruitment and selection practices. Personal networks, advertisements and internal promotion are the three most used recruitment sources. Personal networks are believed to be the most relied-upon source (New Era, 2008; Amatya and Shrestha, 2010). Hiring practice emphasizes educational level and work experience (New Era, 2008; Amatya and Shrestha, 2010).	Word of mouth, company Website and advertisement are major recruitment sources (CRANET, 2011). 92 per cent of companies use social-networking sites for recruitment (Kasper, 2012). Hiring practice emphasizes right skills, talent and work experience (Dessler, 2009; Thompson, 2014).	Company Website, advertisement and recruitment agencies are main recruitment sources. (CRANET, 2011). Focus more on periodic hiring of new graduates (JILPT, 2003). More emphasis given to general employability characteristics, such as personality and intelligence, rather than functional or technical expertise (Peltokorpi, 2013).



Table 1: (Continued)

<i>Nepal</i>	<i>The United States</i>	<i>Japan</i>
<p><i>Training and development</i></p> <p>Lacks training and development programs (Agrawal, 2009). Training mostly based on invitation by various training centers (Baniya, 2004; Amatya and Shrestha 2010). Training needs assessment surveys and post-improvement studies rarely conducted (Gautam, 2011). Companies invest only for hard-to-find skills and virtually all trainings are job-related (Serriere and CEDA, 2014).</p>	<p>Relatively structured and systematic manner. Training is mostly for sharpening professional skills and knowledge that enables employees to effectively perform their jobs (Dessler, 2009).</p>	<p>Considerable emphasis on job rotation and on-the-job training in order to increase flexibility of employee skills and abilities (Morishima, 1995; JILPT, 2003).</p>
<p><i>Performance appraisal</i></p> <p>Performance appraisal has received lower priority. Personal judgment and subjective assessment have been key criteria in many private-sector organizations (Gautam, 2011). Performance evaluation lacks transparency and is not used for corrective action or career planning (Agrawal, 2009).</p>	<p>Performance-appraisal practices are standardized, systematic and focus on job performance. These practices are subject to the Civil Rights Act, which assists in providing justice in cases of discrimination (Endo, 1998).</p>	<p>Less likely to employ a formal performance-appraisal system because of lack of clarity in job boundaries; thus seniority is embedded in pay and promotional decisions (Morishima, 1995; Sekiguchi, 2006).</p>
<p><i>Compensation</i></p> <p>Less research available on compensation practices. Minimum wage for a full-time worker is the third highest in South Asia, after India and Pakistan (World Bank Group, 2014). Furthermore, Nepali companies claim that their pay scale is higher than that designated by law (Amatya and Shrestha 2010).</p>	<p>A job-based wage system is widely adopted. Pay is market driven and pay increments are higher for better performers, not for those with longer service periods (Chen, 2004). Pay increments are also affected by the company's financial achievements (Jacoby, 2005; Dessler, 2009).</p>	<p>Seniority-based pay is prevalent. However, skills-based wages are also applied to coordinate lifetime-employment practices with the need to compensate workers in accordance with their performance and skills (Chen, 2004).</p>



liberalization in 1991, but this has yet to result in satisfactory economic growth and structural transformation (Khare and Slany, 2011).

The nature of jobs in Nepali companies has not changed since the 1990s. Most jobs are still repetitive and less challenging (Adhikari and Gautam, 2010). One survey (Serriere and CEDA, 2014) shows that nearly 60 per cent of workers are dissatisfied with their work and would like to change their job, mainly because of skill mismatch. However, labor mobility in Nepal is relatively low. For men, it is 14.4 per cent, while for females it is less than 3 per cent. The youth are more concerned with utilizing their skills and are looking for training specifically with regard to new technologies and opportunities for further education (Adhikari and Gautam, 2011). Moreover, they are less likely to change jobs solely for monetary reasons (Serriere and CEDA, 2014).

Nepal has a collectivist and relatively hierarchical culture and has a preference for avoiding uncertainty (Pant *et al.*, 1996; Hofstede Center, 2014). The World Bank (2013) reported Nepal as a low-income country with a per capita income of US\$730, and it is one of the least developed of the 48 countries designated as such by UNCTAD (2014), which cites Nepal as one of the highly improving countries among them.

Nepal has been striving to create an investment-friendly environment to attract FDI since 1981 and has pursued a number of liberal policies (Foreign Investment Opportunities, 2009). Areas of foreign investment include industrial manufacturing, service, energy, tourism, mineral, construction, agrobusiness and forestry. Nepal has investments from 76 countries; India is the major foreign investor, followed by China, South Korea and the United States. Japan is the 13th largest foreign investor (Industrial Statistics, 2012/2013).

HR practices in Nepal, the United States and Japan

HR in Nepal is still in its infancy, and a structured Nepali-style HR is yet to be established. Personal networks are the most prevalent recruitment sources (New Era, 2008; Amatya and Shrestha, 2010), while training needs assessment surveys and post-improvement studies are rarely conducted (Gautam, 2011). Companies tend to rely on training centers for developing their human resources (Amatya and Shrestha, 2010). The great focus on HR is likely to be diffused to handling employee relations, as management and labor unions often have an adversarial nature (Chapagain, 2003).

Reflecting the organizing principle of a job-based and system-oriented structure, the US-style HR practices are formalized and standardized (Endo, 1998; Dessler, 2009). The organizational focus is on job performance and has a completely performance-based pay and promotion system (Chen, 2004). Clearly defined jobs are the basic building block, and hiring practice emphasizes the right skills, talent and work experience (Dessler, 2009; Thompson, 2014).



Japanese practices are more unstructured and flexible, with many unwritten rules reflecting the organizing principle as a ‘family-like’ and people-centered approach (Ouchi, 1981; Endo, 1998; Morishima, 1999). These practices are usually perceived as comprising lifetime employment, seniority pay and promotion, and strong organizational commitment (OECD, 1973; Moore, 1987; Sekiguchi, 2013). Thus, Japanese hiring practices emphasize general employability characteristics such as personality, rather than functional or technical expertise (Peltokorpi, 2013).

Methods

Owing to the lack of previous literature on the HR practices of MNCs in Nepal, we needed a considerably detailed and explanatory approach. To both explore and explain the context (Piekkari *et al*, 2008), qualitative studies were considered the most appropriate method (Eisenhardt, 1989a; Eisenhardt and Graebner, 2007; Yin, 2009). We performed empirical research based on 16 semi-structured interviews. The semi-structured questions provided the interviewees with a degree of freedom to explain their thoughts and to interpret and describe phenomena in their own way (Humphrey and Lee, 2004).

According to the Nepal government’s database, 179 Japanese-affiliated companies (Hereafter: Japanese affiliates) and 222 US-affiliated companies (Hereafter: US affiliates) had been approved for investment in Nepal as of fiscal year 2012/2013 (Industrial Statistics, 2012/2013). We interviewed seven US affiliates, five Japanese affiliates, and four Nepali companies. Multiple cases may provide a stronger base for theory-building and lead to a more robust and general theory (Eisenhardt and Graebner, 2007; Yin, 2009).

The targets were selected from the government database (Industrial Statistics, 2012/13). Companies with higher numbers of employees were targeted for all the US and Japanese affiliates, and Nepali companies. Japanese affiliates in Nepal are operating on a small scale, with low numbers of employees. Contacts were established with the shortlisted companies through emails, telephone calls and at times personal networking. The oldest company in our target was established in 1964 and the youngest in 2010. Sixty per cent of the target companies were established after Nepal’s economic liberalization in 1991. We conducted three phases of interviews. In the first phase, interviews were conducted from mid-September to early October 2012 in 13 companies; 5 Japanese and 4 US affiliates, and 4 Nepali companies. Of the companies interviewed in this phase, we conducted follow-up interviews in April 2013 in five Japanese and three US affiliates, with an objective to confirm our initial findings and to collect additional information on emergent themes. Scholars in qualitative research recommend the addition of questions to the interview protocol as it allows the researcher to examine the emergent theme (Eisenhardt, 1989a). They also suggest adding cases if a new line of thinking emerges and if it



improves the reliability of findings. In the final phase, we interviewed three additional companies in March 2014. The reason for adding new companies was to confirm whether companies of different sizes had different practices.

Interviewees included HR managers, managing directors, and where neither was available, a manager or supervisor with broad knowledge of company HR practices. The majority of interviewees were in their late 30s. Their tenure varied from 26 years to 6 months. However, 75 per cent had worked for at least 2 years in the company. The interviewees were therefore familiar with their company's organizational culture and management practices. Interview protocol for this study was developed before visiting each company and questions included such topics as recruitment and selection, training and development, performance appraisal, and compensation, all of which represent major HR functions. Seven of the interviews were digitally recorded, while notes were taken in all 16 interviews. The language used for interviews was Nepali, later translated into English. Interviews were planned for around 30–40 min, but in 12 companies went on for more than 1 hour to help us explore more facts. The interviews were conducted by one of the authors who is fluent in Nepali as well as English.

Table 2 shows information on the companies and the position of interviewees. In order to protect the privacy of the companies, we gave referent names to each.

For data analysis, we performed the following steps. First, for each interview conducted, we noted memos and summarized the interviews on the same day,

Table 2: List of companies interviewed

<i>Nepali Companies</i>				
<i>Company name</i>	<i>Year of establishment</i>	<i>Number of employees</i>	<i>Industry</i>	<i>Interviewee</i>
(N1)	1986	236	Tourism	Assistant HR Manager
(N2)	1964	300	Manufacturing	Production manager
(N3)	1973	800	Manufacturing	HR manager
(N4)	1981	255	Manufacturing	HR and Administration manager
<i>The US Affiliates</i>				
<i>Company name</i>	<i>Year of establishment</i>	<i>Number of employees</i>	<i>Industry</i>	<i>Interviewee</i>
(U1)	1979	500	Manufacturing	Learning and Development manager
(U2)	1998	419	Tourism	HR Development and Training manager
(U3)	2000	300	Tourism	HR manager
(U4)	2008	113	IT	HR manager
(U5)	2009	250	IT	HR manager
(U6)	2009	55	IT	General manager
(U7)	2010	92	IT	Associate HR manager

**Table 2:** (Continued)

<i>Japanese Affiliates</i>				
<i>Company name</i>	<i>Year of establishment</i>	<i>Number of employees</i>	<i>Industry</i>	<i>Interviewee</i>
(J1)	1990	18	Tourism	Manager
(J2)	1968	52	Tourism	Assistant managing director
(J3)	2001	19	IT	Manager
(J4)	2008	19	IT	Administration manager
(J5)	2007	37	IT	General manager

following the ‘24 hour rule’ discussed by Eisenhardt (1989b). It helped us to generate key facts and impressions as well as a preliminary interpretation of our data (Yin, 2009). In the second step, we transcribed all the recorded interviews and did a within-case analysis. This further assisted us to gain a closer familiarity with each case (Eisenhardt, 1989a). On the basis of that, we derived categorization and sub-categorization of data and put those data into a table. Individual cases were then further summarized within the groups of Nepali companies, the US and Japanese affiliates. This process helped facilitate pattern-matching (Yin, 2009), that is, to identify matched (or unmatched) HR practices with previous literature and across the groups. By this stage we could see the tentative connection of our findings to the prior literature and answers to our research questions. The extended interview questions and extra interviews helped to examine and improve the reliability of the findings (Eisenhardt, 1989a). We also performed explanation-building on our findings at different stages of data analysis (Piekkari *et al*, 2008).

Findings

We present our findings in three sections: HR practices in Nepali companies, in the US affiliates and in Japanese affiliates. Tables 3–6 summarize the key characteristics of the HR practices in these three groups as well as the imported and localized components in the foreign affiliates.

HR practices in Nepali companies

We found that several HR practices are progressing in Nepali companies and there is a growing awareness of HR issues among Nepali managers. However, we also found that some of the changing practices do not properly address important HR issues, possibly due to a lack of managerial and financial resources as well as local institutional pressures. Therefore, our findings indicate that HR practices in Nepali

**Table 3:** Findings on recruitment and selection

<i>Companies</i>	<i>Nepali companies</i>	<i>The US Affiliates</i>	<i>Japanese Affiliates</i>	<i>Findings</i>
<i>Components</i>				
Recruitment sources:	Internal recruitment, advertisement, word of mouth, recruitment agencies, fresh graduates <i>head-hunting</i>	Internal recruitment, advertisement, word of mouth, recruitment agencies, head-hunting, fresh graduates <i>Homepage, Facebook, LinkedIn, Job Portal, Drop-box</i>	Internal recruitment, advertisement, word of mouth, recruitment agencies, fresh graduates <i>Special Case: Affiliate (J5) only fresh graduates</i>	The US Affiliates: hybrid Japanese Affiliates: mostly localized
Demand for recruitment comes from:	Respective departments with the designated requisition form	Respective departments with the designated requisition form	Depends on work-load and new projects, resignation	The US Affiliates: either localized or transferred, as both have similar features Japanese Affiliates: specific
Core values:	Experience <i>job knowledge, confidence level, market image</i>	Experience <i>individual competency, skill, educational qualification</i> <i>Special Case: Affiliate (U5) not prefer experienced</i>	Experience <i>Attitude, long-term working, learning power, interest</i>	The US Affiliates: hybrid Japanese Affiliates: hybrid

companies are advancing, but suffer from some confusion and quality deficiency. The following gives examples of these findings.

In recruitment and selection, hiring through personal networks seems to be decreasing and emphasis is placed on hiring the best talent. The comment below shows that Nepali companies are struggling to find methods for hiring the right person.

If we announce our job vacancies in any national newspapers, we will start getting numerous calls from politicians, friends, relatives, and so on to appoint their recommendations. It is too time-consuming to deal with them and sometimes too frustrating [.....] So, we have now changed our policy and go for headhunting rather than announcing it publicly (N2).

Nepali companies seek to hire experienced employees because of their tendency of low investment in training and development practice (Baniya, 2004; Amatya and Shrestha, 2010; Serriere and CEDA, 2014). Indeed, although Nepali companies have



Table 4: Findings on training and development

<i>Companies</i>	<i>Nepali companies</i>	<i>The US Affiliates</i>	<i>Japanese Affiliates</i>	<i>Findings</i>
<i>Components</i>				
Method	On the job, off the job <i>more focused off the job</i>	On the job, off the job <i>both equally focused</i>	On the job, off the job <i>more focused off the job</i>	The US Affiliates: transferred Japanese Affiliates: more localized
Training needs analysis tool	Supervisor's direct observation, training needs analysis form, performance appraisal	Structured training needs identification form; conducted by head of department in consultation with HR	No defined tools, depends on project need	The US Affiliates: transferred Japanese Affiliates: specific
Have structured training programs and schedule	No in majority	Yes in majority	Yes, only to new employees	The US Affiliates: transferred Japanese Affiliates: mostly localized

Table 5: Findings on performance appraisal

<i>Companies</i>	<i>Nepali companies</i>	<i>The US Affiliates</i>	<i>Japanese Affiliates</i>	<i>Findings</i>
<i>Components</i>				
Conducted by:	Head of department and/or immediate supervisor	Head of department and immediate supervisor <i>360-degree evaluation, self-appraisal, HR consultation</i>	Head of department and/or immediate supervisor <i>peer review, self-appraisal, headquarters evaluation</i>	The US Affiliates: transferred Japanese Affiliates: localized with improvements
Outcome:	Pay increment, promotion, training, feedback to employees	Pay increment, promotion, training, feedback to employees	Pay increment, promotion, training, feedback to employees <i>opportunity to work and/or training in Japan</i>	The US Affiliates: either localized or transferred as both have similar features Japanese Affiliates: mostly localized

formal/informal training programs, most depend on training centers and thus lack planned and organized human resource development activities. A positive change is that some companies use performance evaluation and structured forms for accessing

**Table 6:** Findings on compensation

<i>Companies</i>	<i>Nepali companies</i>	<i>The US Affiliates</i>	<i>Japanese Affiliates</i>	<i>Findings</i>
<i>Components</i>				
Base for initial salary	Government law, company capacity, market rate	Market rate, individual competency, skill	Government law, market rate: direct comparisons, employee expectation and negotiation	The US Affiliates: transferred Japanese Affiliates: specific (modifying local)
Base for increment	Collective bargaining, performance appraisal, seniority	Collective bargaining, individual bargaining, performance appraisal, seniority	Collective bargaining, performance appraisal, seniority	The US Affiliates: hybrid Japanese Affiliates: hybrid

training needs. However, these training need identifications are not properly addressed by concrete employee-development undertakings.

The top-down performance appraisal system is the predominant evaluation method used in Nepali companies, which is related to such cultural characteristics as the hierarchical society and high power distance (Pant *et al*, 1996; Hofstede Center, 2014). In addition, the appraisal system is less transparent, as it is exclusively based on an evaluation by the immediate supervisor or the head of the department. However, we found that companies use structured forms for performance appraisal, and promotion is based not only on seniority but also on performance. Considering that Nepal is a hierarchical and seniority-sensitive society, this seems to represent a newly developed phenomenon.

Government legislation is the main basis for determining initial pay levels, while collective bargaining is decisive for increments. The findings show that Nepali companies simply follow government rules when they do not face severe competition based on employee monetary benefits, and when the market is less evolving and labor mobility is relatively low (Serriere and CEDA, 2014). In negotiations over pay increments, difficult Collective Bargaining Agreements (CBA) meetings reflect the strong unions.

The unions often have very unrealistic demands [...] Last year, we had to go through more than ten meetings with unions leaders for settlement on CBA meetings [...]. A big part of management's time is used for such unproductive discussions [...] but that is also a part of the responsibility of management. We are trying to educate our employees on such issues and develop trust between us. (N1)



This comment uncovers the presence of strong labor unions in Nepal and the labor-management relationship. The findings also indicate that managements are becoming aware that the only way to solve such disputes is to hold discussions and frequent communications with employees rather than suppress them. This context is much clearer with the following comment:

Managing human resources in Nepal is a completely complex management function. [...] Two years ago, our company got locked up for more than a month due to labor protests [...] The foremost thing that we changed following that dispute is communication with employees. We had very infrequent communication then [...] Now we always check with union members and specifically with union leaders if things are going fine, and check informally if there are any other external sources provoking the unions to raise unrealistic demands. (N2)

HR practices in the US affiliates

We found evidence of a strong country-of-origin effect from the US MNCs, consistent with the literature (Muller, 1998; Harzing, 1999; Edwards and Ferner, 2002; Ferner *et al*, 2004; Parry *et al*, 2008). That is, HR practices in the US affiliates are mostly imported from the parent company and many are likely to be adopted in the Nepali context. For example, the comment below shows that HR practices in the US affiliates mostly reflect the parent companies, but requisite localization is simply performed without much imposition to follow the parent's practice.

Our entire system operates under the global standard of our brand. Everything is based on the guidance and manuals provided by the headquarters. So is HR. However, whenever we find some odd aspects that cannot fit due to the local circumstances, we do localize. And we also get support from the headquarters for localization ... (U2)

Although the US and Nepali practices have similar characteristics in recruitment and selection, their priority rests on hiring experienced employees with the right skills. The US affiliates use the Internet, which is less seen in the recruitment practices of local companies. This shows that the US affiliates are following the US way, as this is one of the most widely-used methods in the United States (Kasper, 2012). This has been facilitated by the growing number of Internet users in Nepal (World Bank, 2014). An HR manager, with regard to using the Internet, put it as follows:

We have an open recruitment system throughout the year. Potential candidates can upload their resumes to our homepage or our Facebook page. We get back to them whenever we have new hiring plans. (U5)



While the US affiliates seek to hire experienced employees, intensive training is further provided after hiring. As the following comments show, training and development in the US affiliates is structured and has been transferred from the parent company.

Training needs are identified on the basis of starting-job profile and ongoing performance evaluations as well as competency level of each employee. We offer short-term, mid-term, and long-term trainings on a continuous basis. (U1)

We have a monthly training schedule and trainings are mandatory. Technical or job-related training is carried out by the respective departments and soft-skill training such as behavioral skills is carried out by the HR department. (U2)

A lack of skilled manpower or a skill mismatch problem (Serriere and CEDA, 2014) in the local context has further assisted the implementation of structured training and development practices. Our findings indicate that in Nepal, where the labor force is not as skilled as required (New Era, 2008) and where young people seek more training opportunities (Adhikari and Gautam, 2011), implementing parent practices for developmental purposes might be welcomed.

Performance appraisal systems and compensation practices in the US affiliates consist of both local and transferred components. For example, structured appraisal tools such as 360-degree evaluation have been transferred, while seniority, a local factor, is taken into consideration for promotional decisions. It appears that transferred appraisal tools have compensated for such parts of the local system as favoritism and nepotism (Agrawal, 2009), while seniority-considered promotion in most affiliates reflects the balance maintained by the US affiliates with the local cultural environment. As for compensation practices, setting an initial pay structure is more the US way than the local. They are likely to attract competent candidates with competitive pay, often significantly higher than the market level. Pay increments are based on both seniority and performance.

Pay increment cannot be completely based on performance. We have to balance both seniority and performance. This is different from [what] the parent company does [...] We have it localized [...] But high performers do get faster promotions. (U6)

However, collective bargaining seems influential in the case of pay increments. This could be attributed to the local institutional environment, where collective bargaining efforts are strong. Though a majority of the US affiliates in our sample do not have a labor union, those affiliates with unions seem to face serious labor-management disputes, specifically in terms of pay and benefits.

We have three labor unions. All of them are like sister organizations of political parties. They do not believe in the company's financial statements and keep on demanding raised salaries and benefits [...]. What is more, the clash and



competition among the labor unions is actually preventing the management to work more on overall employee welfare. (U2)

This comment again reflects the strong unions and weak labor-management relationship in Nepal. The findings further illustrate that affiliates in the IT sector are less influenced by union activities than those in manufacturing and tourism. This could be attributed to the fact that IT is a newly-established sector, operating at a smaller scale. In short, negotiating with labor unions seems to be one of the most challenging tasks for the US affiliates.

Nepal as a least-developed country lacks managerial and technical know-how and this facilitates the transfer of employee development practices by MNCs. Until and unless employees become committed to the practices implemented, the labor unions will keep on making demands and labor-management issues will recur. This will tend to grow with the age and size of the company.

HR practices in Japanese affiliates

Similar to the US affiliates, we also found evidence related to the country-of-origin effect among the Japanese MNCs, consistent with past literature (Harzing, 1999; Pudelko and Tenzer, 2013). That is, Japanese working values and business manners have been imported. Expatriates are the key sources when setting up a company. Expatriates stay for 1–2 years during the establishment phase and then subsequent visits are a normal trend.

Some Japanese came from the headquarters during the establishment phase. Since then, they have tried to set up a Japanese-like organization [...] always putting pressure to follow the Japanese way of working [...], mainly the Japanese culture and their organizational values. For example, 'working overtime'. They never understand that working overtime in Nepal is not a common practice. Our staff members do work overtime and whatever they are doing is already more than enough in the Nepali context. But the headquarters is always complaining about working 'too little overtime'. (J3)

At the beginning, he [the expatriate] wanted everything to be done the Japanese way [...]. I will share one example.... If an employee arrives at the office even a minute late for whatever reason, cutting half the day's salary would be the punishment. This kind of rigid rule was completely unacceptable to the employees and as a result we lost many of our talents. The headquarters noticed this trend and started considering localization. [...] For example, if employees informed us about potential late arrival with justified reasons, then 15 extra minutes would be considered. (J4)



These comments might imply that the Japanese affiliates are likely to import most of their parent HR practices to Nepal. However, our analysis on individual HR practices reveals that Japanese affiliates in Nepal are more likely to follow many of the local practices than their home practices.

As for recruitment and selection, Japanese affiliates mix the features of both local and parent practices. For example, they seek to hire employees more experienced than fresh graduates, and at the same time emphasize employee-organization fit. This simple observation indicates that they tend to implement value, that is, organizational fit (Sekiguchi, 2006) more than practice, that is, hiring fresh graduates.

We do hire fresh graduates, but preference is given to experienced ones. What is more, the person is not hired if s/he does not fit into our organizational culture. For example, we do not hire someone who is self-centered and may not be able to work in a team. (J4)

Training and development practices are very similar to those of local companies. Although, there are some specific training for newly hired employees, the affiliates do not undertake intensive in-house training for further employee development. Subsequent trainings are either very few, or follow and imitate local companies in being associated with training centers and sending employees to such centers for training. Performance appraisal in Japanese affiliates is also very similar to that of local companies, perhaps because both Japan and Nepal are relatively hierarchical societies (Pant *et al*, 1996; Hofstede Center, 2014), and thus a top-down evaluation system and seniority-considered promotion might be a consequence of cultural similarity. However, as this comment shows, Japanese affiliates use a more transparent system than the local companies, as they involve the headquarters. The affiliates are further using methods like peer review and self-appraisal.

Reports on all employees are sent to the headquarters every week based on the prescribed format by the headquarters. Depending on this report, the headquarters reviews the overall performance for a year of each individual employee. (J5)

In compensation practices, Japanese affiliates are more likely to comply with local practice. Legal requirements are the first and foremost determinant for initial pay levels, indicating coercive isomorphism. In addition, negotiations with the job candidates as well as with the headquarters are likely.

We first ask the minimum requirement of the potential candidate; then we settle it through negotiation. But it has to be approved by the headquarters. Also, all increment decisions are done by the headquarters based on the performance evaluations and seniority. (J4)

Seniority-embedded pay incrementation is again a common factor of local companies and Japanese affiliates. Collective bargaining is prevalent in pay increases. However, we did not find it as severe as in Nepali companies and the US affiliates. This could



be partially attributed to the fact that all the affiliates have a low number of employees and only the ‘affiliate (J2)’ had a labor union. Further, the manager from this affiliate, in terms of labor unions, put it as follows:

The union that we have is actually very friendly and helpful. I do not remember them making any unusual demands or putting pressure on management during my fifteen years of work experience in this company. (J2)

This comment shows that the Japanese affiliates in Nepal, despite strong union influence in the local context, are able to remain either non-union or have amenable unions. This finding implies that they are carefully studying the local context and are aware of potential issues that might be caused on and/or after the formation of labor unions. Though the affiliates oversee the imposition of the Japanese way of working, the management is likely to be handling labor relations adequately.

Our findings show that once employees become committed to the values implemented by Japanese affiliates, they rarely raise voices against the company. This enables good employee relations in the Japanese affiliates. However, it takes longer to get employees committed to the values and work culture of the company – at earlier stages, they feel impositions strongly.

Summary of findings

Our findings indicate that HR in Nepal is changing and people are becoming more aware of the importance of HRM. However, we did not find drastic differences in HR practices from those mentioned in previous literature. Moreover, some changing HR practices suffer from confusion and inadequate quality.

With regard to the HR practices of MNC affiliates, our findings support the existence of country-of-origin effects for both US and Japanese affiliates. On the one hand, the US affiliates seem to import all or most components of parent HR practices (Muller, 1998; Tayeb, 1998; Bartlett and Ghoshal, 1999; Martin and Beaumont, 1999), and any requisite localization of components is done straightforwardly without much imposition to follow the US management standards. On the other hand, most HR practices in Japanese affiliates are localized and it is Japanese values such as punctuality, working overtime and Japanese business manners that are actually transferred from home. Expatriates are the key conduits in the transfer process and are reluctant to localize the transferred values (Bird *et al.*, 1998; Harzing, 2001).

More importantly, we found that the distinctive characteristics of the local Nepali context influence the way MNC affiliates implement HR practices. In the case of the US affiliates, it seems that because of the growing use of the Internet in Nepal, the US MNCs are able to use the parent’s recruitment practices, such as using social-networking sites. The need for managerial and technical know-how in the local market is a positive aspect, as it contributes to the implementation of training



and development practices. In the case of Japanese affiliates, they seem to have established good labor-management relationships despite strong union influence in the local context. This could be done by handling labor issues carefully while imposing Japanese work values and work culture in the affiliates, although this takes a long time. In both cases, needs in the local market and the nature of labor relations have strong influence in the implementation of the HR practices.

Further, our findings indicate that the internalization of practices versus the internalization of values by MNC affiliates seem to have different effects on labor-management issues in the local context. In the US affiliates, internalization through implementation of practices is less likely to lead to healthy labor-management relations. In Japanese affiliates, internalization through implementing values is more likely to result in good labor-management relations.

Finally, our findings highlight the fundamental differences between local Nepali firms and MNC affiliates operating in Nepal. The US affiliates place more emphasis on the training and development of employees, more transparent performance-appraisal tools, and more competitive pay levels. Japanese companies, though, bring only some specific components of their HR practices, are likely to ensure organizational fit, and have some specific training from the headquarters and more transparent performance-appraisal tools. Such features added to local practices show a more liberal HR than local companies.

Discussion

The purpose of this article was to investigate the HR practices of foreign affiliated companies in a least-developed country. With a study of the US and Japanese affiliates in Nepal, the findings support the country-of-origin effect of these foreign affiliates identified in previous literature, and found that the distinctive local characteristics of Nepal as a least-developed country influence the way MNC affiliates import HR practices.

Although a number of previous studies have indicated that the transfer of HR practices is limited due to the cultural and institutional characteristics in a host country (Rosenzweig and Nohria, 1994; Myloni *et al*, 2004; Almond *et al*, 2005; Pudelko *et al*, 2015), our findings indicate this is not always true in least-developed regions. That is, contrary to predictions from earlier studies, institutional distance is less inhibitive to transferring practices in a least-developed country; institutional distance may indeed promote, rather than impede, transfer of practices. For example, we found that the US affiliates were able to apply more US-like HR practices, such as active use of social-networking sites without much resistance.

Several explanations are possible for this finding. For example, the local context of a least-developed country such as Nepal lacks a standardized and formalized HR system. Further, in a least-developed country there is a shortage of good managerial and technical know-how. In this situation, young local people especially will develop



strong aspirations for training in new technology and knowledge (Adhikari and Gautam, 2011). Further, management practices in a least-developed country are generally changing and progressing. In such circumstances, practices from institutionally distant nations are welcome as long as they can address local needs for formalized practices and managerial and technical know-how. For example, because people in least-developed countries may not be satisfied with current unstructured and under-developed HR practices, imported HR practices will be accepted even if they are from institutionally distant nations.

This might be a different situation from, say, developed countries, where local HR practices are usually established. People in developed countries are familiar with and appreciate local more than foreign practices. They are generally reluctant to accept foreign practices that differ from local ones. We show that MNC practices in a least-developed country can rather be welcomed. With this observation, our findings suggest a modification of the transfer – adaptation dichotomy when applied to a least-developed country, such that the pressure for adaptation in a least-developed country might be less and transfer might be welcome if it meets local needs.

The above argument is also related to the second distinctive nature of Nepal as a least-developed country. That is, the nature and needs of the local labor market, including union influence, are important determinants for implementing imported HR practices. As we have seen, people in a least-developed country are generally unsatisfied with existing local *ad hoc* and often inconsistent HR practices. Therefore, there are strong demands in the labor market for better practices, which indicates that satisfying such demands is the most effective way for MNC foreign affiliates to implement their HR practices. The US affiliates seem to do better than Japanese affiliates in this regard, as the US affiliates have successfully imported home-country practices that are accepted by local employees, whereas Japanese affiliates use many local practices. On the other hand, our findings indicate that Japanese affiliates seem to do better in establishing good labor-management relations than the US affiliates, which is also important in implementing HR practices. In short, MNC affiliates operating in a least-developed country such as Nepal need to prioritize the nature and needs of the local labor market and labor relations over other factors in establishing their HR practices.

From the affiliate side, the situation relates to what Kostova and Roth (2002) called ‘internalization’. Our findings indicate that the internalization of tacit values, as the Japanese affiliates are attempting, might be much more difficult to establish than the internalization of explicit practices, as the US affiliates are doing. For example, the importance of 360-degree evaluation, a performance appraisal tool often used in the United States, might be easier to convey, as it is likely to increase transparency in the evaluation system; but convincing employees to work overtime or during festivals, as is normal in Japan, might be difficult if they are unaccustomed to such customs and thus fail to see the value in it. However, whether it is the internalization of explicit practices or of tacit values results in the long run in different levels of employee commitment and labor-management relations.



Internalization of explicit practice is easily achieved as long as the practices are welcomed by the local context. This reduces the obstacles of institutional distance in implementing HR practices. However, internationalization of explicit practices might not satisfy the deeper needs of local people, such as the need for affiliation (that is, establish a good relationship with employers and enjoy work) (for example, McClelland, 1985), because the effect of cultural distance still persists. Labor-management relations will not significantly improve, as in the case of the US affiliates, because different values between labor (host-country values) and management (home-country values) might conflict.

On the other hand, the internalization of tacit values, although difficult to achieve in the short term, will address the issue of cultural distance better than the internalization of explicit practices. Internalization of tacit values seems to overcome cultural distance because it is achieved through the process of mutual understanding of the cultures of host and home countries and increases the fit between organizational culture and employees working in the company. It seems that the internalization of tacit values satisfies the deeper needs of the local people, such as the need for affiliation. Therefore, the internalization of tacit values might establish a higher level of organizational trust and commitment in the long term, as our findings revealed that labor-union issues and/or labor-management disputes in Japanese affiliates are less likely compared with the US affiliates, although the relatively lower number of employees in Japanese affiliates might be another reason. In short, we found the interaction of different forms of internalization (that is, practice versus values) and local context help establish the HR practices of foreign affiliates of MNCs from different countries and their effect on labor relations.

Our discussion so far also explains why local Nepali companies and foreign-affiliated companies differ. Indeed, Nepali local firms want to improve their HR practices, but lack managerial skills, experience and specific techniques that they can learn. HR history in Nepal is still young and companies are in the learning phase. This causes confusion and inadequacy in HR practices. On the other hand, the US and Japanese affiliates can implement more sophisticated practices or values from their home countries. MNC headquarters can support the establishment of better HR practices either through manuals or by sending expatriates. Therefore, HR practices in MNC affiliates are fundamentally more advanced than those of local Nepali companies. This observation is consistent with the argument that MNCs tend to be more strategic and systematic in their HRM than domestic private firms (Cooke and Saini, 2010).

Theoretical implications

Our findings have theoretical implications for the IHRM field, in that extant IHRM frameworks may be extended or modified when applied to IHRM phenomena in a least-developed region. Such theoretical implications are threefold.



First, when the IHRM frameworks, especially the institutional perspective, are applied to a least-developed country, we should acknowledge that institutional distance does not always impede the transfer process; as such, the lack of structured practices in a least-developed country may facilitate application of practices from institutionally distant countries.

Second, when predicting the possibility of the transfer of HR practices from an MNC's home country, it should be emphasized that the nature and needs of the local labor market and labor relations will influence the implementation of HR practices; as such, the practices are welcome as long as they are able to address local needs for formalized practices and managerial and technical know-how. This might be different from industrialized nations, where people may generally be reluctant to accept foreign practices that differ from local ones. Therefore, in a least-developed country, the nature and needs of the local labor market and labor relations could be stronger predictors of implementation of HR practices in MNC affiliates than the factors identified in the extant IHRM frameworks, such as cultural and institutional distance and the country-of-origin effect.

Third, we propose an extension of the concept of internalization by differentiating internalization based on values, and internalization based on practices; as such, the former is difficult to establish but less likely to lead to labor-management issues in the long run, while the latter is easier to establish but likely to create significant reaction from labor unions in the local environment. We argue that this is more likely to happen in a least-developed country where labor-management relations have a strong influence on HR issues. To put it differently, different forms of internalization may interact with the local context in influencing the implementation of HR practices, which has significant implications for IHRM theory.

Fourth, our findings indicate that IHRM issues in a least-developed country may be more dynamic than other parts of the world. Local firms have great need to obtain advanced HR practices. Though HRM awareness is progressing, because of the lack of managerial technology and knowhow, HR practices suffer from confusion and inadequacy. On the other hand, MNC affiliates are in a better position because they can access the developed HR practices from MNCs' home countries, which creates a gap between local firms and foreign affiliates in terms of quality in HR practice. This tendency suggests advantages rather than liabilities of foreignness (Zaheer, 1995) in a least-developed country when HR practices are concerned.

Limitations and future research

One of the major constraints of this research is that the investigation is solely based on information provided by interviewees. Therefore, a possible information bias is undeniable.



Future studies could include multiple data sources, including data from parent companies. One obvious path for extending this research is to statistically test our findings in the same or similar contexts. Studies focused on particular industries and/or similar company sizes could improve our understanding and generate industry-specific insights. For the purpose of indicating effective HR practice, future studies might also want to include performance indicators such as market share, profitability, satisfaction level and motivation of employees, and so on. Inclusion of unsuccessful cases might also provide a clearer picture.

Further caution has to be taken on generalizing our conclusion on Nepali HR practices being less advanced in comparison with foreign affiliates, as different results may be found from a wider investigation of more Nepali targets, from sectors other than manufacturing. Similarly, caution is required in the generalizability of the findings as these are exclusively based on the US and Japanese affiliates operating in Nepal. Future research could validate, refine and extend our study to better understand HR practices in least-developed countries.

Concluding Remarks

This article investigates the HR practices of companies operating in Nepal, a least-developed country located in South Asia. The findings of our study contribute to the literature on IHRM. Previous literature on similar topics has not taken into full consideration the distinctive characteristics of HR practices in least-developed regions. In addition, there has been a lack of empirical investigation of the HR practices of MNCs in this region. We fill this research gap and have identified unique phenomena not observed in previous literature in developed or developing countries.

Therefore, this study has opened a new avenue for IHRM research by focusing on the unique characteristics of a least-developed country. We believe our study contributes to Asian business research through a deeper understanding of different HR approaches by MNCs in a least-developed country within Asia.

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