

# National Culture And Transfer Of Hrm Practices In Multinational Corporations (MNCs)

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**Abstract:** This paper provides a review on the role of national culture in transferring the Human Resource Management (HRM) practices of the headquarters of a Multinational Corporation (MNC) to its subsidiaries in other parts of the world. This challenging concern over transfer of HRM practices has created a huge development and a series of novel insights in the field of International Human Resource Management (IHRM).

**Index Terms:** Headquarters, Human Resource Management practices, International Human Resource Management (IHRM), National Culture, Multinational Corporations (MNCs),

## 1. INTRODUCTION

Multi-national Companies (MNCs) are business firms that are headquartered in one country and own significant business operations in more than one country in the world (Brikinshaw, 2016). There are multifaceted concerns in running business with such greater expansion, and the effective management of human resources is increasingly recognized as a major determinant of success or failure in international business (Tarique, Briscoe, & Schuler, 2015). With this great concern, there is a rapid development in the field of International HRM over the past two decades from being a field in infancy to an expanding area (Sharma & Matta, 2018). Accordingly this paper focuses on giving a brief overview on MNCs, International Human Resource Management (IHRM) practices used in MNCs and thereafter on how organizations have adopted mechanisms to transfer the same across geographical borders to the countries to which they have expanded, mainly through wholly owned subsidiaries. There are many external factors such as PESTEL and internal factors such as the MNC's strategy and structure (Deresky, 2017) etc. which affect the operation of international organizations and their staff. Out of these factors, the impact of national culture is a major focus (Farndale, Raghuram, Gully, Liu, Phillips, & Vidović, 2017), and thus this paper looks at its influences on transfer of International HRM practices in MNCs. In doing so the author argues that national culture of the host country has a major impact on the organizational culture of the subsidiary and thereby on the transfer of HRM practices from the headquarters to the locality.

## 2 MULTI-NATIONAL COMPANIES AND INTERNATIONAL HRM PRACTICES

Ghoshal and Bartlett (1990) define a MNC as a group of geographically dispersed and goal-disparate organizations that include its headquarters and the different national subsidiaries, whereas Dunning (1993) defines an MNC as an enterprise that engages in foreign direct investments and owns and controls value adding activities in more than one country. According to Nakhle (2011) Dunning's definition is widely accepted and applied in academia, business, national governments, and international organizations. Multinational companies were initially considered indigenous to more economically advanced countries. Later, while keeping the native habitat of MNCs, most of those companies have invested and conduct operations all over the world especially focusing on the African and Asian continents (Buckley & Casson, 2016). When these companies operate in different continents, one of the outstanding problems that they face is how to make the company run as efficient and effective as a whole. In this scenario, the Human Resource (HR) plays an essential role in the process of internationalization by contributing to effective and efficient performance of MNCs (Buckley & Casson, 2016). With this significance of HRM in determining the success of MNCs, the emergence and the growth of IHRM has occurred, a lot of studies are being undertaken covering its scope. Two decades ago, IHRM was described as a field of infancy (Santos, 2016). Early work in International Business (IB) and multinational firms have been directed towards entry strategies of MNCs to foreign markets and the business approaches adopted by them rather than about management practices. However, with the massive expansions of business operations of MNCs in foreign markets, the focus of researchers has also directed towards areas such as expatriate HRM, repatriation of employees, transfer and diffusion of HRM practices, improving productivity, cross cultural management, global leadership development, and diversity management etc. IHRM is the effective management of human resources in global markets to gain a key source of competitive advantage for MNCs and for them to be globally successful (Dowling, Festing, & Engle as in Zheng, 2011; Farndale et al., 2017). Taylor, Beechler, and Napier (1996) focuses their definition of IHRM on the activities involved in managing the HRM system of the MNC with a set of distinct activities, functions, and processes that are directed at attracting, developing, and maintaining MNC's human resources for both local and overseas operations. Morgan (1986) has adopted a relatively broader approach in explaining the IHRM framework which has a three-dimensional view on

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the same. Accordingly, IHRM is the interplay of, (human resource activities, countries of operation, and types of employees),

1. broad human resource management activities of procurement, allocation, and utilization.
2. three country categories - the host-country where a subsidiary is located; the home-country where the firm is headquartered; and 'other' countries that are the sources of labor, finance, and other inputs.
3. three kinds of employees: host-country nationals, parent-country nationals, and third-country nationals.

The above explanations clearly indicate that International HRM though is misunderstood as Expatriate Management, is very much broader than that. According to Tayeb (2005) this narrow focus has been broadened by the comprehensive definition presented by subsequent research published in the field. With the recent expansion in global business activities and global competition, MNCs need to focus greater attention on their HRM practices which go beyond the management of expatriates. As such Scullion (1995) has identified IHRM as an area of significance with the following research evidences.

1. Shortage of international managers has become an increasing problem for international firms.
2. Successful implementation of global strategies across global operations depends on the existence of an adequate supply of internationally experienced managers.
3. Business failures in the international arena may often be linked to poor management of human resources.
4. Expatriate failure continues to be a significant problem for many international firms.

Looking at the HRM challenges faced by MNCs, it could be observed that there are a range of factors that make the relationship between MNCs and HRM complex than the relationship between a local firm and its HRM practices and this itself makes the study of IHRM important (Brewster, Mayrhofer, & Farndale, 2018).

### **3 DIFFUSION OF INTERNATIONAL HRM PRACTICES IN MNCS**

With the greater expansion of MNCs around the world and with the identification of HRM practices as a major determinant of success or failure in international business the focus on diffusion of HR practices has also increased (Chiang, Lemański, & Birtch, 2017). "... transfer and diffusion of (HRM) practices within geographically dispersed operations of (MNCs) is receiving heightened attention, in particular because it is believed to significantly influence the performance and competitiveness of MNCs and their subsidiaries (Chiang et al., 2017, p. 1)." This international transfer of policies and practices including the HR practices is an especially complex process linked to the necessity to transfer between two geographical locations with diverse cultural characteristics. It must be taken into account that the practices originate in a very specific institutional environment and are later incorporated into a completely different domain, which has to be done with greater care (Kornelakis & Voskeritsian, 2015). Certain MNCs adapt to local and national practices during their overseas operations while globalization has driven to standardization of certain elements in the managerial system including issues related to personnel, culture, and labor practices (Agarwal & Al Qouyatahi, 2018).

Though any business which operates across borders is identified as a multinational, according to the Typologies of Bartlett and Ghoshal (1990), firms that engage in international business can be categorized into four categories based on the degree of global integration and local responsiveness, namely – international organizations, transnational organizations, global organizations and multinational organizations. These typologies act as a way of deciding a firm's business strategy in going international and therefore as the HR strategy is a part of the business strategy of an organization, the HR strategy adopted by the organization will also largely depend on that (Cavusgil, Knight, & Reisenberger, 2012). Myloni, Harzing, and Mirza (2006) have identified that, the level of importance attached to HRM by the MNC's top management and their extent of international experience have the highest explanatory power for the transfer of HRM practices, while international competitive strategy, informal control and the presence of expatriates also have a marginally significant influence in the MNC context based on the findings of a study that was conducted using 80 US and European MNCs with subsidiaries in Greece. Oppong (2018) has argued that though companies might find it feasible to have company-wide policies across all their international operations, they might find it unavoidable to be responsive to local conditions when it comes to diffusion of HRM practices as they are more prone to local cultural influences than are their overall policies and strategies. Moreover, the practices which the companies import from abroad must be modified to make them workable, given its local cultural and non-cultural contexts (French, 2015). This shows the significant role played by national culture in terms of the transferring of HR policies and practices to subsidiaries, even though there could be a quite a lot of similarities between the countries in the same geographic region. Based on the above evidences a non-exhaustive list of factors such as the global business strategy of the company, the compatibility of national culture and socio-cultural differences, the level of importance attached to HRM by the MNC's top management and the extent of international experience, international competitive strategy, and the presence of expatriates could be identified as influencing the transferability of HRM practices in MNCs to their subsidiaries around the world.

### **4 NATIONAL CULTURE AND ORGANIZATIONAL CULTURE**

#### **4.1 National Culture**

Out of all the factors that have been identified as influencing the diffusion of HR practices, national culture is a major factor of influence within the domain of International HRM (Singh, Pattnaik, Lee, & Gaur, 2019) and therefore the focus of this paper is narrowed down to the aspect of national culture here onwards. The question addressed here is whether it is acceptable to suggest that the national culture plays a dominant role in the present-day globalized business context where a majority of businesses tend to convert themselves into global organizations with homogenized business practices. Globalization is a process which involves worldwide integration of strategy with the purpose of developing relatively standardized products with global appeals, as well as rationalizing operations throughout the world (Pieterse, 2019). With this conception in mind, MNCs can and tend to transfer home-country HRM practices directly to their subsidiaries

operating in host-countries which are mostly developing nations. One example would be the introduction of a performance management practice by a Norwegian multinational firm which it developed with the support of a US-based consultancy firm benchmarking corporate giants, to be used across its subsidiaries. Norwegian multinational however had to later remove from this best practice, the elements that were most provocative to dominant cultural values of subsidiaries and let them add certain practices back from the original practice they were using so far (Lunnan et al., 2005). As depicted by the example globalization makes national culture an increasingly strategic issue that must be carefully dealt with and properly managed in transfer and adoption of HR practices in MNCs. The challenge here is balancing of the standard MNC practices in human resource management with the influence of national culture because many aspects of HRM are affected by differences in national culture. Though globalization leads to standardization, HR practices need to differ across cultures even when the company market offering does not (Dhir, 2019). Hofstede (1980) defines culture as the collective programming of the mind distinguishing the members of one group or category of people from others in his research studies on national culture. Culture of a country relates to the deeply held values of people in that country. Those cultural values are learned early, held deeply, and changed slowly over the course of generations (Hofstede, 1980). Groeschl and Doherty (2000) reiterate the fact that culture is complex and difficult to define: "Culture consists of several elements of which some are implicit, and others are explicit. Most often these elements are explained by terms such as behavior, values, norms, and basic assumptions" (p. 14). Cultural values indicate the degree to which a society considers certain behaviors, such as risk taking and independent thinking, to be desirable and it is suggested that if the HR practices transferred by the parent company are not in line with such behaviors of the host culture, the acceptability of them by the subsidiary staff is questionable (Peretz, Fried, & Levi, 2018). Cultures that value and reward such behavior promote a propensity to develop and introduce radical innovation, whereas cultures that reinforce conformity, group interests, and control over the future are not likely to show risk-taking and innovative behavior. Accordingly, for an example, the performance management practices adopted by the parent company may need to be matched with those cultural values and otherwise they may sound unrealistic. Further, if the parent company is in a country which promotes individualism, whereas the subsidiary is in a collectivist culture, individualistic rewards practices may be not well embraced.

De Cieri and Dowling (1999) in their Integrative framework of Strategic HRM in MNCs identify national culture under country – regional characteristics which fall under the broad category of exogenous factors. This indicates that the national culture is a factor specific to each country and region and therefore, when MNCs try to transfer their HR practices to subsidiaries located out of the region, the national culture may play a dominant role in that transference. However, there are counter arguments on the above view that culture plays a dominant role in the transfer of employment practices in multinational companies. Further, Myers and Tan (2003) state that, though understanding cultural differences are important, attempting to understand cultural differences in terms of national culture is overly simplistic and assuming cultural differences are in some way aligned with a country's territorial boundaries is

erroneous. They further critique the notion of 'national culture,' mentioning that the fundamental assumption upon which Hofstede's work is based upon is questionable. Many older nation-states have experienced dramatic changes in their population and ethnic composition where many European nations have significant numbers of immigrants from Asia and other regions. Thus, the physical boundaries, ethnic and racial mix of many nation-states have changed in the recent years, and as such it appears to be difficult to define national culture clearly under this context. Guidroz, Kotrba and Denisson (2009) have concluded through their survey that although the culture and habits of a nation are important to consider in IHRM, the culture of the organization is much more important to consider for effectively managing diversity, which is again done under the International HRM practices.

## 4.2 Organizational Culture

Contradictions in arguments regarding focusing on national culture confirms the existing debate identified by Suseta and Pin (2008) regarding the tension between a trend towards global convergence and the necessary adaptation of HR practices, depending on cultural idiosyncrasies of a country. Thus, it has been highlighted that organizational culture is a factor which has major impact on this convergence–divergence dilemma over national culture, where it pushes global integration whereas national culture is an element which pushes local responsiveness (Cooke, Wood, Wang, & Veen, 2019). However, Laurent (1986) states that the national cultural differences cause differences in individual perceptions and preferences which shape organizational behavior, where the organizational culture is a part of and that therefore, the national culture should not be ignored (Driskill, 2018). According to Wilk (2018) even economic theory recognizes the importance of culture in shaping the behaviors of individuals and institutions. Furthermore, Singh and Prashar (2005) have presented that national culture has its outcomes which could be categorized in to four categories as, individual, group, organizational, and industrial. This indicates the significant role played by national culture on creating the culture of organizations existing within the country. The national culture impacts the behavior of people of a nation-state and thereby, such behaviors are displayed by people at the workplaces, irrespective of whether it is a local company or a subsidiary of a foreign multinational. Organizational culture is manifested and is different in one organization from another in its practices (Brettel, Chomik, & Flatten, 2015). This conforms the fact that the organizational culture of subsidiaries located in different countries of the world of one multinational may differ. For an example, values are highly conditioned by people's childhood whereas the organizational practices on the contrary are learned through socialization at the workplace, at which people arrive with most of their values deeply rooted. One of the major factors that contribute to the childhood values of people are the national culture of that country and this indicates the role played by national culture in creating the organizational culture. A person can learn to adapt to processes and priorities, and a person can be persuaded to follow the exemplar behaviors of leaders in an organization irrespective of what his home country and its cultural system is, but as suggested by ITAP International, if these priorities and leadership traits go against the deeply held national-cultural values of employees, corporate values and culture (processes and practices) will be undermined (Crane,

Kawashima, & Kawasaki, 2016). Many international companies indicate that their parent organization was trying to establish a unique corporate culture at all locations/offices that was consistent with its goals and vision, but in most organizations creating a corporate culture had been difficult because, in certain locations, local cultures and customs have a moderate to great influence on the way business is conducted. In that case, organizational culture fulfils an additional role for MNCs as it determines the method of exercising control or influence over the affiliates and the across-MNC implementation of corporate HR strategy (Wocke, Bendixen & Rijamampianina, 2007). Ghobadian and O'Regan (2002) explore the relationship between organizational culture, strategy, and performance where they find that there is a positive relationship between culture and performance and that strategy is influenced by culture. This also conforms the fact that culture has an impact on strategy where, the HR strategy is a part of and thereby impacts on the transfer of HR practices across subsidiaries. They identify organizational culture as an enabler of the transfer of HR practices by a multinational. As such it is expected to suggest through this paper that there is a strong impact of national cultural influence on organizational culture in the MNCs and thus organizational culture acts as a mediator in the relationship between the national culture and transferability of HRM practices.

## 5 CONCLUSION

The paper discussed the role of organizational culture, in the transferability of employment practices to subsidiaries of MNCs. This means that the transfer of unique HRM practices from the headquarters of an MNC to its subsidiaries depends on the prevailing organizational culture of the subsidiary. The prevailing organizational culture in subsidiaries could differ from country to country within which they operate. Sometimes, similarities could be observed among the subsidiaries within a region such as Europe, Asia and Africa, but often dissimilarities are observed. This depicts the practical difficulties in creating a unique organizational culture across all the subsidiaries of an MNC, confirming that the creation of a global organization with high global integration and a low local responsiveness a serious challenge. The organizational culture of a subsidiary is more or less affected by the national culture of the country. Irrespective of the degree to which MNCs try to transfer their formalities to their subsidiaries, they themselves must make certain adaptations and variations to suite the national cultures. This is especially of a greater degree when it comes to the HRM practices as they employ many people from the host community. As such in conclusion, it is suggested that the transferability of employment practices in MNCs is dependent upon the national culture of the country and this relationship is mediated through the organizational culture prevailing in the subsidiary.

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