HRD/HRM strategy and practices in MNCs in developed and developing countries: 

a cultural approach

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Working paper

Key words: cultural approach, convergence, dominance effect, HRD/HRM strategy, MNC

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In our study we deal with the question: How could cultural features influence the choice of HRM/HRD strategy and practices in MNCs in developed and developing countries? We considered 6 theoretical approaches to HRM/HRD strategy formation and practices transfer in MNCs. The analysis of 92 academic, scholarly articles generally about HRM/HRD issues in MNCs and particularly in developed and developing countries allowed us to identify HRM/HRD strategy formation and practices transfer features in MNCs in developed (the USA, Germany, Japan) and developing (China, Russia) countries.

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**Theoretical background (Literature review)**

One of the main challenges to the HRM/HRD experts in MNCs is to make the strategic choice:

- between convergence and divergence at macro-level (country);
- between standardization and localization at micro-level (subsidiary).

Convergence includes those HRM/HRD practices which are universally useful and valid beyond the national culture and institutional environment.

HRM/HRD is one of the most difficult areas for standardization. This is the main reason why MNCs begin by localizing its HR practices in specific environment and then transfer them from the HQ (Pudelko and Harzing, 2007).

The proponents of divergence focus on local practices and are reluctant to use “best practices” without taking into account culture and institutions.

Today in the developed countries an increase in convergence of separate HR practices goes hand in hand with general divergence growth in employment practices in each country. This trend is called “converging divergences” (Katz and Darbishire, 2002).

Pudelko and Harzing propose the special term “Gold triangle” (Pudelko and Harzing, 2008) which means that MNCs have to choose strategically among standardization of HQ practices, localization, and standardization of the best global practices.

In 2010 Ernst & Young published the report “Advanced HRM/HRD experience in MNCs” (Global Mobility Effectiveness Survey, 2010). The authors of the report emphasized the development of HRM/HRD technologies and a large number of unresolved problems in this area. They suggested changing the training approach in MNCs as a priority problem solution
method: it should be based on studying the culture of other countries and integrating their achievements into management practice.

L. Susaeta and J. Pin distinguish 6 main perspectives to HRM/HRD strategy formation and practices transfer within the MNC: institutional comparative, structural, micro-political, rational, knowledge, and cultural (Susaeta and Pin, 2008).

According to the institutional comparative approach there are different influences of the institutions on the national business system of the HQ and the subsidiary. These institutions govern the product, labor, and financial markets. Institutional profile of the country of origin is the main factor in the transfer of HR practices within an MNC.

The structural approach centers on the influence of the structural factors of the HQ and the subsidiary. The transfer of HRM/HRD practices is affected by the role the subsidiary plays in MNC, the extension of inter-unit dependence, the nature of the internal and external network in which the subsidiary is rooted, the age and size of the subsidiary, the degree of integration in production.

The micro-political approach examines how the agents of the HQ and the subsidiary would act, according to their power based on the critical resources they possess. There could be a conflict between HQ and subsidiary or between two subsidiaries, since there may be specific critical assets that give the subsidiary that possesses them greater superiority.

The rational approach stresses the pressure that competition exerts on companies when it comes to sharing the “best practices” through their international operations. In general, according to the rational perspective, MNCs have the option to either license or franchise a source of competitive advantage to other companies operating in other countries. However, this contract agreement carries significant risk, not least due to the resulting uncertainty.

The knowledge approach focuses on the knowledge barriers to reach a common understanding in the practices. It includes the analysis of the abilities of people in the subsidiaries to understand the different HRM/HRD practices due to factors related to knowledge. Such factors as degree of tacit and explicit knowledge regarding HRM/HRD practices, manner of communication of HRM/HRD practices to employees and use of IT in HRM/HRD practices could be determining in the HRM/HRD practices transfer.

The cultural approach centers on the efficiency of practices in their relation to the national system of cultural values. The advocates of the cultural approach have serious doubts about the possibility to transfer efficiently the HQ’s HR practices to local subsidiaries. The practices should be transformed according to host country traditions and values. The cultural approach is historically the first to study the transfer of HRM/HRD practices in MNCs. One of its founders G. Hofstede assumed that culture is the “crystallization of history in thoughts, feelings and
actions of the current generation” (Hofstede, 1993, p. 5). Hofstede proposed five cultural dimensions: power distance, individualism, uncertainty avoidance, masculinity and long term orientation. Another proponent of the cultural approach F. Trompenaars (Trompenaars, 1996) worked out the model of national cultural differences containing 7 dimensions:

1. Universalism versus particularism (What is more important, rules or relationships?)
2. Individualism versus collectivism (Do we function in a group or as individuals?)
3. Neutral versus emotional (Do we display our emotions?)
4. Specific versus diffuse (How separate we keep our private and working lives)
5. Achievement versus ascription (Do we have to prove ourselves to receive status or is it given to us?)
6. Sequential versus synchronic (Do we do things one at a time or several things at once?)
7. Internal versus external control (Do we control our environment or are we controlled by it?)

The cultural approach focuses on divergence and localization in HRM/HRD strategies formation. In other words, scholars take local practices into account and criticize the widespread use of successful practices which ignores cultural and institutional features. Russian scholar V. Lipov (Lipov, 2008) tried to connect cultural differences models with external socio-economic factors’ perspective. He divided countries into basic socio-economic models, integrating Hofstede and Trompenaars models with dominant religious and legal systems. He argues that in spite of cultural differences in developing countries the transformations follow universal rules and standards because of its legal culture development. Thus, we hypothesized that the expansion of legal culture could influence HRM/HRD strategy and practices in MNCs in developed and developing countries.

Following the cultural approach we formulate our research question: How could cultural features influence the choice of HRM/HRD strategy and practices in MNCs in developed and developing countries? With this aim we explore the cultural approach to HRM/HRD practices diffusion in comparison with institutional comparative, structural, micro-political, rational, and knowledge perspectives.

The research method is the analysis of academic, scholarly articles concerning the related issue. We studied 92 papers generally about HRM/HRD issues in MNCs (e.g., Almond, 2011; Belanger et al, 2003; Brewster et al, 2008; Edwards, 2011; Schuler et al, 2011) and particularly in American (e.g., Bodolica, Waxin, 2007; Fenton-O’Creevy et al, 2008; Tarique, Schuler, 2008), German (e.g., Burbach, Royle, 2010; Dickmann, Muller-Camen, 2006; Holtbrügge, Mohr, 2011), Japanese (Shiraki, 2002; Yongsun, Sohn, 2004), Chinese (Jaussaud, Liu, 2011; Glassman, 2006) and Russian (Björkman et al, 2007, Fey et al, 2009) MNCs.
We particularly stress the cultural difference concept of G. Hofstede (Hofstede, 1993) and F. Trompenaars (Trompenaars, 1996).

The following two types of countries are chosen:
- developed countries (the USA, Germany, Japan)
- developing countries (China, Russia).

**Findings**

1. There are differences in HRM/HRD strategy and practices between MNCs which operate in developed and developing countries. It means that MNCs heterogeneously change its HRM/HRD strategy and practices: on the one hand, the universalistic principles are implemented; on the other hand, some practices closely connected to the culture of developing countries are transformed.

2. In order to assess the relevance of an approach to HRM/HRD strategy and practices it is necessary to study the experience of the considerable number of MNCs in the long run. The case study of one company is not enough.

3. Nowadays the convergence trend in HRM/HRD strategies and practices is more salient. This trend is typical for most of MNCs which operate in developed and developing countries.

4. The main reasons of convergence trend are globalization processes and related diminishing impact of local cultures.

5. The transformation of social and economic models affects typological characteristics of organizational culture in MNCs: the prevalence of so-called “Self-directed rocket” (Trompenaars, 1996) type of organizational culture which is common for American business system which could be defined by high level of achievement orientation, results in goal and task achievement and egalitarianism as basic HRM/HRD principles.

6. At a strategic HRM/HRD level in MNC the discussed trend is expressed in a dominance effect. The dominance effect means HRM/HRD strategy and practices standardization which is typical to American approach. That approach is used by the companies from some developed countries (Japan, Germany). It includes strategic and result orientation, the outstanding performance in marketing and HRM/HRD.

7. The “best practices” are general strategic orientations for result achievement, the implementation of “high performance” model in HRM/HRD. It consists of HR selection, assessment and remuneration procedures tightly connected with expected and achieved results; personal achievement orientation; preference for financial remuneration tools.

8. In manufacturing enterprises in most cases the HR practices of Japanese business system are prevailed Here the advantage relates to adjusted process-oriented management. HR
strategy design is not an aim in itself, it is a continuation of a general management system (quality management, kaizen, kanban etc.)

9. In subsidiaries of Japanese MNCs operating in Asia the headquarter’s HRM/HRD strategy and practices are copied. In Japanese subsidiaries of American MNCs HRM/HRD practices are standardized through dominance effect.

10. The dominance effect could concern not all HRM/HRD practices simultaneously, there could be a standardization of individual practices as well. The choice depends on certain MNC’s features. (its age and size, organizational chart, organizational culture, management style).

11. HR remuneration practices are least standardized. These practices are closely connected with local cultural stereotypes.

12. Chinese subsidiaries are more sensitive to HRM/HRD practices from HQ. There is no native HRM/HRD system in China yet, its characteristics are mainly associated with former socialist management system.

13. The same trend is typical for Russian approach to HRM/HRD. According to the foreign experts (Björkman et al. 2007, Fey et al. 2009, Jaussaud, Liu, 2011; Glassman, 2006), such characteristics enhance flexibility of HRM/HRD decision-making.

References:


Global Mobility Effectiveness Survey (2010), Ernst&Young.


