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A Study on the Role of HR in Multi-National Companies

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Abstract – The rapid rise of multinational Corporations (MNCs) from emerging economies has led to greater interest and urgency in developing a better understanding of the deployment and diffusion of managerial strategies from their perspective and without assuming the prevailing Western ethnocentric orthodoxy. This research develops a conceptual framework of global HR strategies and practices in MNCs from emerging economies across their subsidiaries in both developed and developing markets. Using data from a pilot study of an Indian MNC, it provides insights and guidance into the motives, strategic opportunities and constraints in cross national transfer of HR policies and practices in a multi-polar world.

INTRODUCTION

Multinational Corporations have been broadly defined as business firms that uphold value added-holdings overseas. According to Spero and Hart (1999) a multinational corporation (MNC) as a business enterprise that maintains direct investments overseas and that upholds value-added holdings in more than one country. An enterprise is not truly multinational if it only operates in overseas or as a contractor to foreign firms. A multinational firm sends abroad a package of capital, technology, managerial talent, and marketing skills to carry out production in foreign countries. Dunning (2008) supports the same view and defining MNC as an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value added holdings in more than one country.

The stage of internationalization also has an effect on the required HR role. Evans and colleagues (2002) suggest three progressive stages of HR roles: the builder -building appropriate HRM basics at the start of the internationalization process; the change partner - realigning HRM to meet the needs of the changing external environment as the company increases its overseas operations; and the navigator - developing the capabilities of the organization and its people, managing the balance between short-term and long-term, global integration and local responsiveness, change and continuity in the global environment. The complexity of the corporate HR role thus increases as a company moves closer towards an integrative HR strategy.

Fundamental to HR being able to carry out these roles and activities is the departments own level of expertise. Should an extortive or integrative approach to HRM systems be desired, the actual transfer of

HRM systems can only occur when sufficient mechanisms are put in place (Taylor, *et al.*, 2006). Appropriate mechanisms include regional/global meetings of subsidiary HR directors, the transfer of HRM materials and tools, and the mobility of HR directors between the HQ and subsidiaries. HR excellence and knowledge transfer are thus essential factors in HR globalization efforts (Sparrow, *et al.*, 2003). Global knowledge transfer is coordinated through creating global centres of HR excellence as forms of knowledge networks, facilitated by the choice of the most effective technological platforms and agreement about the content of knowledge to be shared. This global horizontal and vertical networking is critical to sharing information about both local conditions and best practices.

Reflecting on the above range of HR roles and typologies and the contextual factors having an impact, there is a pressing need to supplement this theorizing with empirical data on how the HR function at different levels manifests itself in an increasingly international business setting, and how it is involved in sharing and coordinating HR knowledge.

To explore this further, we do not focus here on how HR managers see themselves in respect to the aforementioned typologies and roles; instead, we focus on how HR managers at different levels are involved in initiating, implementing and coordinating HR policies and practices. Based on these insights and analyses, we can identify the different roles at the various corporate, regional, national and local/plant levels and the varying degree of involvement in sharing knowledge and coordinating HRM activities. Based on the explorative nature of this study, in-depth case-study research has been carried out among MNCs displaying wide variation in

degrees of internationalization and the related strategies.

REVIEW OF LITERATURE

Over the past thirty years, the conceptualization of global strategies by Multinational Corporation has developed dramatically (Adler, 1997; Bartlett, & Ghoshal 1998), and the implication of these global strategic models for international human resource processes and practices has no less dramatic (Black et al., 1999). Despite these important developments, however, major discontinuities between these global structures and the international human resource processes that are required to implement them remain (Heidenreich, 2012).

The main players in a global knowledge-based economy are multinational companies (MNCs). No one can deny the importance of MNCs in the current global business environment. Multinational Companies coordinate and control subsidiaries across national boundaries and are thus obliged to operate in different national contexts (Heidenreich, 2012).

Several critiques have been raised regarding the value creation of human resource management (HRM) i.e. whether it can contribute directly to the implementation of the strategic objectives of firms and improve performance (e.g. Hope–Hailey et al. 1997). Strategic HRM (SHRM) emerged in the early 1990s laying more emphasis on an integrative and value–driven approach to HRM. SHRM focuses on issues such as the fit between human resource practices and organizational strategic management, the involvement of the HR function in senior management teams, the devolvement of HR practices to line managers and the value that is added to organizational performance by HRM (Bowen and Ostroff, 2004).

This review research critically examines multinational company; discuss its merits and demerits for host countries and debates on its various types of structures and strategies. The main part of this critical review relates about the various types of structures and strategies which multinational companies adopt while conducting business across borders. It starts by defining Multinational Company discussing its merits and demerits, analyzing the various components of its strategies and structures and comparing the merits and demerits of these different types of structures and strategies. A thematic approach rather than chronological approach has been used mainly due to the purpose and approach necessary for such type of review. The thematic approach enables an analysis of a specific topic or theme without considering the chronological order of which the research has been conducted. In latter part this review discusses the relationship of these strategies with international human resource management and also highlights the implications of different companies' strategies and structures for the international human resource management (IHRM). And at end we concluded that

the role of IHRM varies in different types of organizational structures and therefore the implications of these structures are also vary for international HRM.

OBJECTIVES OF THE STUDY

The study was conducted with the following objectives

- To assess the quality of human resource function in IT organizations and Multi-National Companies.
- To find out the extent to which the strategic role is performed by the human resource function in these organizations.

HYPOTHESES OF THE STUDY

The above study was based on the following hypotheses:

- The quality of current services provided by the HR function in IT Organization and Multi-National Companies is poor.
- The HR function performs more of Administrative role than the strategic role.

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RESEARCH STUDY

The sample companies for the study are TCS, Infosys, Wipro and HCL Technologies. The main sources of data for the study consist of both primary and secondary sources. The major findings of this study are major problems faced of HR Personnel in IT industry are recruitment and retention, training challenges, career development and employee retention.

The software industry has come a long way. And like all big events of history, it happened part by design and part my accident. In the 70s, not many people in India understood the word" software" and there was no separate software industry. Throughout the 70s, multinationals like IBM and ICL (UK) were the largest providers of hardware to the industry and it came bundled with the operating systems and a few basic packages. Larger enterprises including the Indian defense and public sectors - which needed customized applications, had their own teams that did everything from installing systems to writing software. The information technology sector has been playing a key role in fuelling the Indian economic performance which has been stellar without robust GDP growth India's total IT industry's(including hardware) share in the

global market stands at 7% in the IT segment the share is 4% while in the ITES space the share is 2%. The industry is dominated by large integrated players consisting of both Indian and International service providers. During the year, the share of Indian providers went up to 65-70% due to the emerging trend of monetization of captives. MNCs however continued to make deeper inroads into the industry and strengthened their Indian delivery centers during 2008.

Over the last few years, India has established itself as a destination of choice. While cost is not unimportant, other factors have become increasingly vital. These include quality, customer services, time-to-market, reliability and security features like data protection, respect for intellectual property rights and network security. New growth areas have emerged like Knowledge Process Outsourcing (KPO), remote infrastructure management, product engineering services and R & D services. Growth has given rise to fresh challenges on many fronts, particularly in the areas of human resources and infrastructure.

Despite the relatively large bulk of literature on strategic HRM, there is still an ongoing debate as to whether it exists in reality or is merely rhetoric. This research attempted to broaden the scope of existing literature by examining the extent to which Strategic HRM is practiced in the Indian manufacturing sector as well as its impact on organizational performance. A multi-respondent survey of 21 Indian manufacturing companies was undertaken and data collected was subjected to correlation and regression analysis as well as descriptive statistics in pursuance of the stated objective of finding a fit between organizational performance and strategic human resource management practices. Results show that strategic HRM was moderately practiced by the companies operating in the Indian manufacturing sector. Results also indicate that line management devolvement, innovative recruitment and selection system, regular training and development of personnel, equity based compensation system, performance appraisal system, effective career planning system and a robust employee participation in the organizations' decisions and actions are the key strategic HR practices that influence organizational performance in the Indian manufacturing sector. It therefore, implies that companies operating in the Indian manufacturing sector should pay more attention to these practices with a view to improving their implementation across the industry.

A message frequently found in corporate mission statements and annual reports is that people are a firm's most valuable resource. Having the right personnel at the right place and at the right time is of utmost importance to the survival and success of any organization. The recognition of Human Resource Management (HRM) as a key source of competitive

advantage provides professionals working in the human resources (HR) functional areas with elevated organizational status. The acknowledgement of human resource management, however, presents professionals working in the area with a number of role changes and new challenges. For example, the creation of more central strategic roles for the HR function brings with it the expectation that it is not enough for HR to simply partner top management; it has to drive business success.

DATA COLLECTION

The population of this study is made up of all the companies operating in the Indian manufacturing sector. The study specifically uses a sampling frame consisting of 47 manufacturing companies listed on the Indian Stock Exchange (NSE) as at 30th September, 2010. Questionnaires are sent to the heads of human resource departments of thirty manufacturing companies cutting across the following six industries: Health Care; Food and Beverages; Building Materials; Conglomerates; Printing and Publishing; and Paints and Chemicals. Stratified random sampling method is used in selecting the sampled companies from the study's population. The unit of analysis in this study is the firm and multi-rater (multi respondents) response approach is adopted.

Gerhart et al. (2000) contended that HRM effects based on single respondent surveys were significantly undermined by the presence of measurement error in the HRM measures. To minimize this error, three (3) questionnaires are sent to each company and it was addressed to the head of Human Resource Department who is required to be part of the three respondents. For each company, the composition of the respondents is: the head of HR Department, one senior HR staff and one other senior management staff outside the HR Department.

CONCLUSION

The results obtained from this study indicate that strategic HRM is moderately practiced by companies operating in the Indian manufacturing sector and that performance symbolized by growth rate of revenue, financial strength, return on equity, return on assets and profitability is reasonably enhanced by eight out of the nine strategic HRM practices tested. The study, to this extent, has provided evidence for the value-added by strategic HRM through the integration of HR function within the organization's key strategies and operations. Be that as it may, questions need to be asked on the results of moderate levels of involvement in Strategic HRM practices as against high levels reported elsewhere. Can this be simply passed off as problems of new concept, data specification, procedures or even interpretation? Can this result even be attributed to factors other than

strategic HRM practices? These are questions that can be resolved under different settings. However, managers everywhere face the same challenges of tackling complex problems with limited resources, determining priorities, motivating staff, initiating change and demonstrating measurable results. Strategic HRM in concept and practice is about managers standing in the front lines to tackle these challenges to achieve organizational objectives. We should be reminded that people may know everything about line management devolvement but not practice it; people may know the virtues of employee participation but not apply it. It is therefore, down to commitment as the missing link.

To achieve employee commitment, the weather of the work place has to be supportive to lead to and sustain staff motivation and high performance (Litwin and Stringer, 2008; Stringer, 2002). No doubt, Strategic HRM practices identified in this study should play this role creditably well and to act as catalyst, organizations should consider the benefits of integrating their HR function with its overall strategies and operations.

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