Literature review on multinational corporations management essay

Globalization is everywhere. It is the process of increased interdependence between nations (Carbaugh, 2009). Globalization is driven by technological change and the liberalization of trade and opening up of the markets. Globalization has given rise to multinational companies. Multinational corporations or companies (MNCs) are massive companies having business in several countries around the world. The growth of MNCs has been very rapid in the recent years and they are even proliferating into the developing nations where there is tremendous scope for business. These corporations usually transfer their knowledge and business practices like finance and human resource (HR) to their subsidiaries in other nations and try to maintain coordination. Various methods are used to ensure this transfer. The transfer of HR practices is very important to maintain some sort of synchronization between the head quarters of the MNC and their subsidiaries. Though HRM was not considered of great value in the past, now it is considered to be one of the most important components of a successful organization as human beings are considered to be assets to the organizations and their retention and satisfaction is of key importance. MNCs usually adopt HR strategies that match the industrial requirements of the host companies and at the same time transfer some of the parent country practices to the subsidiaries.

Human resource management as such refers to a rational and strategic approach to managing people who work in an organization to achieve the goal of the organization collectively (Armstrong, 2003). The successful diffusion of HRM practices across subsidiaries by the MNCs either makes or breaks them. They strive to strike a balance between home country and host country practices by prioritising what needs to be adopted from each. To a large extend they try to converge their best practices so that coordination and management is easy. They also try to integrate the practices of host countries so that there is acceptance in those countries, but the degree of this integration varies from one MNC to another.

LITERATURE REVIEW

1. Multinational Corporations

Multinational corporations or MNCs are known by different names – transnational companies, multinational enterprises, global corporations or international corporations. The origin of MNCs could be traced back to the 1860s, but it was only after the Second World War that the world has seen such a rapid growth in their numbers (Cherunilam, 2006). The British East India Company and Royal Africa Company are examples of some earlier MNCs. The ILO defines MNC as a company having head quarters in the home country and operations in several other countries. These companies think globally but act locally. The main reason why firms chose to go global could be attributed to the uneven distribution of factor endowments and failures in the market. MNCs generate almost 50% of the globe's industrial output and about 67% of the world trade (Gooderham & Nordhaug, 2003). Now a day's MNCs are present in all parts of the world but the bulk of them belong to the " triad nations" of USA, European Union and Japan. Some of the points to consider for a company to be called an MNC are as given below (Saleem, 2006).

Operates in many countries. The level of economic progress in these countries may differ.

Around 50% of its net profits come from the operations in foreign countries.

Usually has a central management with local subsidies being managed by locals.

Encourages collective transfer of resources and knowledge across continents.

Has a huge resource base and ability to expand.

a) Types of MNCs

Caves, in his book Multinational Enterprise and Economic Analysis, divides MNCs broadly into three groups (Caves, 1996). Horizontally integrated companies are those which sell the same kind of goods across nations, for example, soft drink companies, confectioneries etc. In the case of vertically integrated enterprises, the output in some of their plants in one country serves as input in some of their plants in other countries. The reason for the dispersal of the units could be attributed to the geographical reasons. An industry known for its vertical integration is the oil industry where the crude oil is dug in one location and its processing done in another location. The third and last group described are MNCs that show no evidence of either vertical or horizontal integration (Caves, 1996). The companies belonging to the third group concentrate on spreading business risk, especially systemic risks. Systemic risk refers to the risk of collapse of an entire market or industry.

MNCs can be further classified as financial controllers and integrated international companies (Tempel, 2001). Financial controllers are companies where there is very strong control of the subsidiaries by the head quarters and there is also a great degree of dependence on the parent country by the subsidiaries for resources. The integrated international company also has a high degree of authority over its subsidiaries and also there is a high degree of resource dependence. The factor that distinguishes the financial controllers from the integrated companies is that there is a certain degree of independence when it comes to resource.

b) Foreign Direct Investment

It is seen that the more the foreign direct investment (FDI), the bigger the population of MNC subsidiaries in that country. FDI refers to the long term investment of one country in another. FDI inflows in to the developing countries have been on the rise since the 1990s (Patterson et al, 2004). Due to this the number of MNCs cropping up in the developing countries is also on the increase.

c) Knowledge Transfer

One major feature of MNCs is the transfer of knowledge and practices across the world from the parent country to the host countries and vice versa. The transfer of knowledge comprise of technology transfer, transfer of managerial and technical knowhow and various skills. This knowledge being transferred could be implicit or explicit knowledge. Implicit or tacit knowledge consist of mainly personal experiences, attitudes and skills that are specific to a person and hence difficult to formulize; explicit knowledge on the other hand can be easily quantified into scientific data, formulas, procedures and is not people specific (Tayeb, 2005). Explicit knowledge can be easily transferred while tacit knowledge is more difficult. Transfer of explicit knowledge takes place by the transfer of machinery and equipment, installation of software, licensing and so on. HRM goes a long way in helping the transfer of knowledge across nations, especially implicit knowledge. HRM practices like training, motivation, vision sharing and inter-unit transfer of employees, all help in the creation, maintenance and transfer of implicit knowledge with in the different units of the MNC (Tayeb, 2005). MNCs need both tacit and explicit knowledge for gaining competitive advantage. In fact knowledge transfer between the head quarters and subs form the basis for relationship building for the MNC (Koohang, Harman and Britz, 2008).

2. 50 Global MNCs

The Fortune magazine comes out with a list called Fortune Global 500 companies where they rate companies based on their on various revenues and profit. This list is considered to be “ the list” when it comes to the best and most powerful companies in the world and making the list is a great honour. This year Wal Mart stands number 1 in the list. The list also consist of classification of companies based on various factors like sales, revenues, fastest growth rate, employment rate, and so on. Given below is the list of the top 50 companies from the list (Fortune, 2010). The list consist of a mix of international and multinational companies belonging to many industries ranging from retailers, finance, oil, automobile and IT to mention a few. They are also distributed in several countries.

Rank2. jpg

Source : Fortune Magazine, 26th July, 2010, http://money. cnn. com/magazines/fortune/global500/2010/full_list/.

3. The Automotive MNCs

Around the world the insurgence of vehicles made in foreign countries can be witnessed. The automotive industry is a prime example of MNCs developing cross border networks and alliances (Blanpain, 2008). The automobile industry started getting international status after the Second World War, when companies like Ford and General Motors started selling vehicles in the European markets. In the 1970s Japanese companies started penetrating the US markets with their cars and in the 1980s European countries started selling its automobiles in other continents. By the 1990s the automotive industry was totally thrown open with not only sales in foreign countries, but also production of parts and vehicles expanding to alien countries. This created the need to develop strategies to ensure coordination and control over the subsidiaries by the parent companies. Some famous automotive MNCs are Toyota Motor Company, Ford Motor Company, General Motors, Volkswagen and Hyundai to mention a few. The International Organization of Motor Vehicle Manufacturers (OICA) comes out with a statistics on motor vehicles production both manufacturer and country wise. Both statistics are given below. The below data gives an idea of the 2009 production of automobiles by top companies including some which figure in the Fortune Global 500 as well as country wise distribution of the same.

tables and charts-001. jpg

Source: OICA, (2009), http://oica. net/category/production-statistics/

ranking-2009-001. jpg

Source: OICA (2009), http://oica. net/wp-content/uploads/ranking-2009. pdf

4. Human Resource Management

Human resource management can be defined as " designing management systems to ensure that human talent is used effectively and efficiently to achieve organizational goals" (Mathis and Jackson, 2008, p 4). From the above definition the following aims could be inferred about HRM as pointed out by Armstrong in his book " A Handbook of Human Resource Management Practice".

Organizational effectiveness is one of the goals of HRM strategies. This could be done by developing proper and well laid out policies in various arenas like talent management, knowledge transfer and management and work place management (Armstrong, 2006).

Management of human capital is another goal. Human beings are now considered to be one of the most vital assets to any company and managing them is of utmost importance. Their attraction, retention, nurturing and motivation are taken care of my HRM.

HRM supports and facilitates knowledge management and transfer between the head quarters and subsidiaries.

One very important aspect of HRM is reward management. The attraction and retention of employees is possible only if they are rewarded appropriately.

HRM also aims at maintaining good and healthy relationship among the employees and also with the trade unions.

Another aim of HRM is to meet the diverse needs of the stakeholders of the company by implementing policies that balance all their needs.

The last and final aim of HRM as mentioned by Armstrong is slightly over reaching, yet something HRM aspires to do. This is to bridge the gap between ambitions and actual operations. It strives to ensure that the aspirations are translated into doable action plan.

In the case of most MNCs HR practices are transferred across borders for want of competitive advantage and the use of competencies that are unique to the parent firm. However there are cases of the transfer of practices from subsidiary to the parent firm or between two subsidiaries.

5. Models for Implementing HR Practices across Border

Various models exist when it comes to transferring HR practices across nations. These models are based on the whether the host or home country practices are adopted or a mixture of both.

a) Convergence and Divergence Models of HR Practices

MNCs decide to either converge or diverge when it comes to HR practices. Convergence refers to the diffusion of the preferred practices of the parent company to the subsidiaries. Divergence is the adoption of the local human resource practices and labour relations common to the host nation (Cooke, 2003). There are basically four main arguments supporting convergence of best practices (Sparrow et al, 2004). These hold true when it comes to HRM as well.

Power of Markets: This argument basically says that at present US management practices are considered to be the best practices around the world and the market forces are such that those MNCs that do not follow those practices are at a disadvantage in the market and may even lose out eventually (Brewster, 2002). Hence many MNCs adopt the HR practices adopted by the US firms which is inclined towards convergence.

Transaction Cost Economics: The adoption of convergence methods has been supported by transaction cost economists. Transaction cost can be simply defined as the cost that is incurred for transferring information. This includes all cost incurred for gathering valuable information and also the processing of that information. Firms that follow convergence actually reduce the transaction cost and hence transaction cost economics favours convergence.

Like-minded International Cadres: The growing number of students of management from the USA and UK are alarmingly large. The number of non-European students reported to be present in the UK in the year 2004 is 210000 (The Guardian, 2005). The number is only greater in the USA. These numbers are on the rise and they populate the many MNCs around the world. This result in the churning out of people whose thinking patterns and working patterns are more or less similar. This again increases the convergence of practices across nations.

Cost, Quality and Productivity Pressures: The convergence of quality standards across countries with regard to products and services is very important for the success of MNCs.

The proponents of divergence on the other hand argue that there is a requirement to adopt local policies and practices when it comes to HR and convergence might cause problems like “ the country of origin” effect. They also argue that convergence is often difficult due to various regional and cultural factors as well as government interference (Daniel & Reitsperger, 2004).

b) Hybrid Model of HR Practices

There is a third model that could be adopted for the transfer of HR practices across borders and that is the hybrid system. This is a combination of both convergence and divergence models. Hybrid model for transfer mainly refers to the application of best practices of the home country through convergence when it comes to core tasks and the adoption of more local practices when it comes to non-mainstream parts of the task (Bamberger and Meshoulam, 2000). The hybrid model could be said to be the result of the many constraints imposed by the local environment. Brakman et al, in their book Nations and Firms in the Global Economy, cites the example of Japanese MNCs who were forced to accept US HR practices when they began to expand their business into the US (Brakman et al, 2006). More and more MNCs are leaning towards the hybrid model as it is the more workable model for controlling and managing business across borders.

When the topic of transfer of HR practices across borders is discussed, there arises a need to discuss the “ country of origin effect”.

c) Country of Origin Effect

The country of origin effect is a very important aspect that needs to be considered while converging and transferring HR practices across the borders to the subsidiaries or branches. The country of origin effect could be defined as generalized image created regarding the products, technology, practices and policies of a company in relation to the country from which that company originated (Davies et al, 2003). In the case of transfer of HR practices, the country of origin influences how the MNCs conduct their business in other countries and also what HRM policies they adopt across borders. For example a German company applying work council type arrangements across borders and a Japanese company putting emphasis on satisfying employee needs as top priority across borders (Brakman et al, 2006).

6. HR Policies/Strategies of MNCs

The policies/strategies adopted by MNCs have a lot to do with whether they are converging, diverging or integrating home and host country practices. Different companies adopt different policies, though most follow the hybrid model as it is ideal for success in present times of dynamic markets. The adoption of the strategy depends on various factors like:

The type of industry and its environment.

The general environment under which the firm has to operate.

The company’s strengths and weaknesses.

The availability of suitable candidates in the parent and host countries to hold executive positions.

The willingness of employees to be deployed offshore.

Whether outsourcing is an option for the company.

Some of the strategies adopted by MNCs to ensure that there is control and coordination of their various subsidiaries is briefly explained below.

a) Polycentric Strategy

This strategy boasts a decentralized structure where the parent company retains the rights to control a few important areas that it deems vital (Tayeb, 2005). The subsidiaries are given a great deal of autonomy to develop HR policies that are inclined towards that followed by the host countries (Scholz and Bohm, 2008). They are also led by talents from the local market. In fact they are called Host Country Nationals (HCNs) and they are usually promoted to important positions in the host country branch. The foremost advantage of this strategy is that managing the business by the subsidiary in its country is easy as it does not clash with the local cultures or practices. However, this approach is not without its disadvantages. The parent company may not be able to exercise as much control as it would like over the subsidiary and also some of the local HR practices may be undesirable and against the ethical code of the parent company. Unilever is an example of a company following the polycentric strategy.

b) Ethnocentric Strategy

Here the parent companies practices are forced up on the subsidiaries irrespective of the practices followed in the host country (Scholz and Bohm, 2008). The subsidiaries have little autonomy and practically no decision making powers. Companies like British Petroleum (BP) follow the ethnocentric approach post the 1990s. They used to send a large cadre of British executives on long term assignments to the subsidiaries with the intention of transferring skills and knowledge (Mabey et al, 1998). Similarly, Toyota sends a team of Japanese executives overseas to administer the start up of a new subsidiary (Bernardin, 2007). These executives of the parent country sent overseas to work in subsidiaries are usually referred to as parent country nationals (PCNs). This strategy is followed my MNCs who consider HR practices to be of primary importance for the success of the business.

c) Geocentric Strategy

This HR strategy is characterized by collaborative relationship between the parent and the subsidiary companies. This strategy integrates all company activities on a global scale. The entire company – parent company and subsidiaries are considered to be a global work space and all its employees are considered to be global workforce (Bernardin, 2007). This line of though enables the employees to be promoted across borders irrespective of their origin. These countries use what is called third country nationals (TCNs) across the organizations. TCNs are nationals that do not belong to either the home country or the host country. Since the ability to work in any of the countries of business is important in this strategy,, it lays a lot of importance to training and developmental activities. IBM is an example of an MNC using geocentric strategy.

d) Regiocentric Strategy

This strategy attempts to balance centralization and decentralization. This strategy recognizes the importance of cultural differences but considers the difference important only at the local level. This could be called a minor version of the geocentric strategy. In this approach usually staffing, training and compensation strategies are based on the local norms where as in geocentric it is based on the concept of a global marketplace. Example of a company that has adopted the regiocentric approach is Coca Cola.

7. Methods to Ensure Convergence of HR Practices

a) Coercive Comparisons

Coercive power in HR refers to the power exerted by the company by clearly stating that non-compliance will result in disciplinary action. Coercive comparison is also a type of force used by MNCs to exert control over the workers. This method is usually used against trade unions to counter the effect of collective bargaining of the workers. In fact coercive comparison is used to whipsaw unions across borders. This is does by using both implicit and explicit threats or promises to disinvestment of work (Cooke, 2003). This type of coercion may force the unions to take a more cooperative stand with the MNCs. There are cases of reverse coercive comparison too where the unions use it against the management.

Many observers feel that economic and political pressures created “ orbits of coercive comparison” (Rees, 1989). The orbit of coercive comparison refers to the wage market which is more or less like an orbit where the influential factors include the organization, its policies and the general concept of equity (Kerr, 1977).

b) International Benchmarking

Benchmarking is defined by Zairi as “ the search for best industry practices that will lead to superior performance” (Zairi, 1994, p 61). Benchmarking may also be defined as a process of measuring one’s own practices against the practices of the industry leaders to see if there is any scope for improvement (Bohlander and Snell, 2010). Benchmarking helps in deciding the best practices to be transferred and maintained across nations. Thus, practices could be diffused across borders and established as standards of good performance.

c) Expatriation and Repatriation

Expatriation is an HR practice used to fill positions in companies. Expatriation is used not only to fill positions when there is a dearth of host country managers but also to transfer knowledge and practices to the host country

(Gooderham and Nordhaug, 2003). MNCs use expatriation to ensure that the corporate culture and practices are properly instilled in the subsidiaries. As mentioned earlier, Japanese companies like Toyota often send Japanese executives to a subsidiary during its setting up to ensure the transfer of practices and adherence to the Japanese way of doing work. Expatriation is also used to have direct control over the subsidiary operations. Expatriation if done well, with the selection of apt candidates with suitable expertise and cross cultural experience, is very useful in the transfer of HR practices. However, the minuses of expatriation are culture shock and the inability of the person to adjust and understand the local requirements of the host country. Expatriation is usually considered by the appointee to be a step up in the career graph.

Repatriation is the return of an employee from a foreign assignment. MNCs are usually faced with the challenge of retention of the returning employee and also to ensure that he retains the connection with the parent companies. For this MNCs usually resort to tactics like mentoring where a senior official acts as mentor to the expatriate and maintains constant contact with the person and also inbuilt repatriation programmes that help the employee in relocating smoothly (Aswathappa and Dash, 2008).

8. Control Strategies

One way of exerting control over the operations in the subsidiaries is to follow an ethnocentric approach; another is expatriation; and yet another is the establishment of benchmarks for the practices to be adopted. However, over and above this there are many control techniques adopted by MNCs, some of these are direct control and some others are indirect control.

a) Direct Control

MNCs deploy direct control methods to ensure that the performances of the employees are up to the standards required which in turn ensure the success of the business.

One direct control technique is performance appraisal. It is essential to have a very stable, practical and strong performance appraisal mechanism. This mechanism should be in place at all levels of the company as well as in their subsidiaries. If the company and branches are considered as one big organization (geocentric approach) such appraisals helps in tracking the performance of various employees and rewarding them as per the performance across borders. While establishing the performance appraisal system one needs to figure out exactly what type of performance is to be measured. This could be trait based, behaviour based or functional based systems (Fisher et al, 2008). Many MNCs follow what is called 360 degree assessment. This assessment is highly comprehensive and effective as feedback is taken simultaneously from the employee, his peers, subordinates and superiors.

Another control technique which motivates employees to improve performance is reward systems for outstanding performance. This system seeks to individualize the workforce by rewarding outstanding performance with pay rises and promotions (Marchington and Wilkinson, 2005).

Training programs conducted by the companies also help to a great extend in ensuring that the corporate objectives, codes and practices are imparted to the employees.

Direct control also includes the written rules, regulations and codes of the company that are applicable to all its branches. This is usually referred to as bureaucratic controls; another kind of direct control called technical control which is the usage of equipments, established processes, communication channels and surveillance (Bratton and Gold, 1999). Direct controls are usually process based.

b) Indirect Control

Indirect controls are often hidden or unobtrusive. Intrinsic rewards like praise and recognition is a method of indirect control. It helps in motivating employees to work harder and achieve greater results. Indirect control in HRM can be classified into output controls and controls through socializations (Wilkinson et al, 2009). The output or indirect outcome based control where the focus is on actual results and not the processes. Many multinational firms rely on social networking to exert indirect control. They use the social networks within companies to transfer knowledge and culture and share information through the informal communication.

9. Cross Border Transfer of knowledge and Practices at McDonalds

McDonald’s is an MNC – an international fast food chain with branches all over the world. There are more than 30, 000 McDonald’s restaurants in over 119 countries (employing more than 70, 000 people) of which 51% are franchisees (McDonald’s Corporation, 2008). What does McDonald’s do to ensure uniformity among all its restaurants around the world?

First of all McDonald’s have a licensing agreement with the franchisees that ensure that they follow standardised patterns when it comes to menus, layout, administration, operations and equipment. The McDonald’s UK website provides information packs for students regarding various aspects including franchising. The steps followed by McDonald’s to transfer HR practices across borders to their franchisees can me summarised as below from their publication “ Franchising at McDonald’s” and also from their brochure for franchisees.

Intensive Training – The franchisees are provided with intensive training which extends to nine months full time (McDonald’s Corporation, 2007). The training covers every aspect of the business from administration to cleaning.

Regular Checks – McDonald’s head quarters regularly checks whether the franchisees are adhering to the McDonald’s standards regarding menus, cleanliness, and administration and so on. Failure to keep up to the required standards may even result in the franchisee losing their license.

Active Role in Community – McDonald’s expects its franchisee to put something back to the community and hence encourages them as well as the McDonald’s staff to get involved in community events and make contributions to local charities.

Commitment – McDonald’s insist that their franchisees are not involved in any other business and are totally committed to running the business. This way they can ensure a greater commitment to upholding their standards and requirements.

10. Human Resource Development at Toyota – the Toyota Way

The Toyota Motor Company is an automotive multinational with head quarters in Japan. It was in 2001that Toyota Way. In the beginning it was an expression of the values and code of conduct that Toyota wanted its employees to embrace. The 5 basic principles that Toyota highlights in the Toyota Way 2001 is

i. Challenge, ii. Kaizen or Improvement, iii. Genchi Genbutsu or Go and See,

iv. Respect and v. Teamwork.

Key principles of Toyota Way 2001

Source: Toyota Motor Corporation Sustainability Report, 2009, p 54.

In 2002 the Toyota Way was extended to include individual functions, domestic and overseas sales, HR, finance, procurement and other functional realms (http://www. toyota. co. jp/en/environmental_rep/03/jyugyoin03. html). The Toyota Way was developed with the aim of transferring Toyota's management philosophies, business practices and values globally to all its branches across the world. Toyota also released a booklet called " Toyota – Developing People", which was aimed at transferring HR practices across borders. The booklet aimed to promote workplaces where personnel development takes place at all levels. Its labour management techniques are based on mutual trust and respect.

To further their cause of global integration, the Toyota Institute was started in the year 2001. The main aim of the institute was the promotion of HRM from a global perspective and also to ensure that Toyota's core values are rightfully transferred across borders.

11. Ford's Governing Strategy

Ford Motor Company is a USA based MNC with more than 90 plants worldwide and with more than 190, 000 employees. Their operations are governed by their shared values called " One Ford". It emphasises the working together as one team to achieve the corporate goals. Its One Ford Mission diffuses down to its many manufacturing plants and also to how it manages its HR. It emphasizes a single global approach where the efforts of the Ford employees around the world are aligned towards a common goal (Ford Motor Company, 2009). The One Ford Strategy has 3 main elements.

i. One Team, ii. One Plan and iii. One Goal.

Source: http://www. ford. com/about-ford/company-information/one-ford

ANALYSIS

Examining the best strategy for an MNC based on their structure with respect to HR can be depicted in the diagram below.

HIGH

Global Integration

Global Structure Transnational Structure

Ethnocentric HRS Geocentric HRS

Global Integration

Extensive Use of PCNs Uses PCN, HCN and TCNs

Japanese MNCs Emerging MNCs

International Structure Multi-domestic Structure

Regiocentric HRS Polycentric HRS

PCNs and H