

Analysis of the
relationship between
the us national
business system and
specific...



This essay examines the relationship between the United States of America's (US) national business system and specific human resource management (HRM) policies and practices used in multinational enterprises (MNE). It is argued that due to the centralized nature of US MNE's, there is a considerable country-of-origin effect that is exhibited in the policies and practices in their overseas subsidiaries. However, due to the evolving nature of international business, there exists in some countries an institutional barrier which impedes the transfer of these standardized policies and practices.

Introduction

A country's national business system has within it certain distinctive characteristics that consequently influence the features of certain HRM policies and practices within MNE's. On a global scale, an MNE's headquarters (HQ) must discern to what degree they wish to transfer these policies and practices to their foreign subsidiaries. US MNE's exhibit a strong degree of centralization when it comes to the management of the company. This is demonstrated through the standardization of policies and practices in relation to industrial relations, performance management and diversity training. This standardization can be explained by the country-of-origin effect which governs the relationship between a national business system and an MNE's HRM policies and practices in their overseas subsidiaries. However, research has shown that some national institutional frameworks potentially inhibit the transfer of standardized policies and practices that are evident in the home country, known as the institutional effect.

Country-of-origin and Institutional Effect

With the rapid acceleration of globalization in the 21st century, enterprises have increasingly found themselves expanding operations into foreign environments, which grants them the title of a multinational enterprise (MNE). This process has a larger effect on the policies and practices regarding HRM functions within a MNE. Accordingly, if an enterprise is to operate on a global scale, the HRM policies and practices employed at the parent company prior to MNE status must have been working effectively. It stands to reason that the incorporation of these policies and practices should be firmly implanted into the foreign subsidiary in order to consolidate domestic success and transform it into international success. This theory is what is described as the country-of-origin effect which “ implies that multinationals are shaped by institutions existing in their country of origin and that they attempt to introduce these parent-country-based HRM practices in their foreign subsidiaries”. The transfer of a MNE’s country-of-origin HRM practices and policies into their foreign subsidiaries is justified by several reasons.

Firstly, these policies and practices are adopted to create and maintain a competitive advantage in the foreign subsidiary. Accordingly, countries will vary in culture, institutional frameworks, and economic conditions, thus by applying the features of the home country to that of the host country subsidiary, the MNE can gain a differential advantage from other MNE’s operating in the host country. Importantly, MNE’s will align their country-of-origin practices and policies wherever a host country presents itself as a strategic option to do so. A further justification for US MNE’s to transfer their

policies and practices to overseas subsidiaries is due to the prevalence of the US business system in the global context, which postulates US HRM practices and policies as best practice. Furthermore, given the sheer dominance of American MNE's internationally, and the perceived power that exists through the US national business system, host-country subsidiaries are more inclined to adopt the country-of-origin HRM practices and policies. The country-of-origin effect is a useful theory in explaining how and why HRM policies are transferred to MNE subsidiaries.

Whilst the country-of-origin effect can be used to explain the transfer of HRM policies and principles to host-country subsidiaries, in reality the institutional effect may limit the desired level of transfer by the MNE. The institutional effect suggests that the transfer of HRM policies and practices are sometimes inhibited by the institutional environment of the host-country, whether it be legal regulations, union involvement or societal views.

Accordingly, in host countries that exhibit a facilitative institutional framework, the transfer of country-of-origin HRM policies and practices is easily achievable. On the contrary, host countries with a restrictive institutional framework make this transfer more challenging, thus leading to the adoption of localized practices and policies.

US National Business System

The HRM policies and procedures of MNE's are often shaped by the national business system of the parent company. " A national business system has been defined as a set of interlocking structures and institutions in different spheres of economic and social life that combine to create a nationally distinct pattern of organizing economic activity". The concept of national

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business systems can explain the policies and practices that exist within any given MNE. In the case of American MNE's, societal pressures as well as economic and legal influences are all factors that once combined create a normalized standard of operation. This is reflected in the way human resources are managed, in terms of industrial relations, performance management and training. The first distinctive characteristic of the U. S national business system is that it can be attributed to a liberal market economy. The state plays a very limited role in regulating the market with its main role involving setting parameters and fostering favorable conditions for the private sector. This limited interventionist approach of the state facilitates a 'shareholder capitalist' system. With the need to satisfy shareholder demands, the existence of a centralized system of control is prevalent throughout many American MNE's in order to oversee the maintenance and implementation of business practices and policies. Moreover, the limited role of the state creates a flexible labor market that is not clouded with regulations. This liberal market economy can partly explain America's strong anti-unionism attitude. Moreover, America's business system has a strong philosophy on diversity which attracts significant attention in the policy agenda. These distinctive elements of America's national business system have been shown to influence the adoption of certain HRM policies and procedures in MNE's.

HRM Policies and Practices

The convergence of these procedures and policies to their foreign subsidiaries is prevalent in the case of US MNE's due to the country of origin effect. However, a full-scale transfer is contingent upon the institutional

framework of the host country. Several researchers have found evidence supporting the country of origin effect on the HRM policies and procedures of foreign subsidiaries. One particular HRM function to exhibit this effect is industrial relations. America is known for having a strong anti-unionism philosophy when it comes to industrial relations. Almond et al. (2005) discovered strong ties to the anti-union philosophy that exists in US MNE parent company. As such, the general consensus for US MNE's is that 'the employer is viewed as the unique guarantor of employee welfare'. This negates the need for third party intervention and influence, which ties in to Ferner et al. (2004) postulation that HRM policies are extremely centralized with the strong desire of HQ to exercise supreme control of the MNE's subsidiaries. This centralization of HRM policy making suggests a country-of-origin effect, whereby the philosophical views of the parent company are transferred to their foreign subsidiaries. There is evidence however to suggest that the institutional framework of some nations may restrict the full-scale transfer of such HRM policies practices. For example, Almond et al. (2005) recognized that MNE's wishing to implement standardized industrial relation policies will need to adapt to local institutional frameworks in nations that exhibit a tightly regulated labor market such as Germany. Therefore, in host-countries with loosely regulated labor markets, the implementation of standardized industrial relations policies that represents the US framework will be permitted. However, countries with tightly regulated labor markets will force MNE's to conform to its local institutional preferences.

Many US MNE's prioritize shareholder welfare which dictates that the achievement of short-term goals is seen as imperative. This is reflected in

the prevalence of individualized performance management (PM) systems in an attempt to promote employee efficiency. Research conducted by Vo & Stanton (2011) supports the country-of-origin theory with regard to PM policies and practices of American MNE's in a developing nation. The corporate HQ exhibited a strong centralized and standardized approach when it came to the policies and practices of PM. It was reported that the companies researched in Vietnam utilized PM systems such as 'forced distribution, 360-degree feedback and upward rating systems'. These systems are commonly used in the US as methods of PM, thus representing a country-of-origin effect. The use of a forced distribution policy in particular reflects the US' view on reaching short-term goals in line with shareholder expectations, thus promoting individualism in the workplace in order to reach maximum efficiency and align their performance with HQ's vision and goals. In another study, a country-of-origin effect was discovered in relation to PM, in particular the system of forced distribution which was linked to the influence of shareholder value. Additionally, Almond et al. (2005) found similarities between the 'forced distribution' PM policy employed at US MNE's HQ and the PM policies used across their European subsidiaries. Importantly, while these policies were applied without opposition in Ireland and the UK, it faced increased difficulty in Germany due to its tight regulatory framework. It can be drawn from these studies that US MNE's exhibit a strong country-of-origin effect on their subsidiaries with regard to PM when the transfer isn't inhibited by institutional barriers. However, in countries such as Germany where there is a tight institutional framework, the transfer of identical PM policies is not feasible.

The desire for centralized control and standardized HRM policies and practices can be translated into the convergence of diversity policies and procedures among U. S MNE's. As defined by the national business system of the U. S, there is a strong focus on diversity. Policies and practices on diversity are imprinted into MNE's through various training mechanisms. Research into the transfer of diversity policies and practices by U. S MNE's into their UK subsidiaries could partly be explained by a country-of-origin effect. Accordingly, the strong belief on the importance of diversity training can be traced back to the legislative and social framework that exists in the U. S. regarding diversity. The desire for centralization by U. S. MNE's HQ explains the strong push for transferring diversity policies and practices to their overseas subsidiaries. However, as Ferner et al. (2004) discovered, perceptions of diversity that were sought to be transferred overseas were not compatible with the institutional environment of the host-country. The policies were seen as a response to U. S. problems and pushed upon subsidiaries without regard for the local institutional environment. Thus, there is a connection between America's viewpoint on diversity and MNE's policies and practices evident through their convergence to subsidiaries. However, with varying views and contexts on diversity, an issue of universal compatibility is apparent with regard to the transfer of standardized policies and practices.

Conclusion

This essay has explored the relationship between the US national business system and the distinctive HRM policies and practices used by MNE's. It is apparent that a country-of-origin effect is present among the HRM policies

and practices adopted by MNE subsidiaries. The HRM functions demonstrating this effect were industrial relations, performance management, and training. This is due to the centralized and standardized nature of US parent companies which is influenced by their national business system. However, some foreign subsidiaries were found to have resisted the country-of-origin effect due to the tightly regulated institutional framework of their nation. While the transfer of some HRM policies and practices may be appropriate in some subsidiaries, research has shown that MNE HQ's will need to adapt in tightly regulated countries in order to satisfy the requirements of that institutional environment.