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School of Management & Business
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(Undergraduate)

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Module Title:	Human Resource Management
Module Code: (e.g. 4SSMN134)	6SSMN339
Assignment (e.g. coursework 1 / group coursework etc.):	Individual Essay
Essay Title (where applicable):	HRM challenge in cultural differences across multinational corporations
Module Leader:	Dr. Ricardo, Rodrigues
Deadline:	25.04.2017
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Introduction

In recent years, globalization became crucial for companies to broaden their market to lower costs and maximize profits. Because of this global phenomenon, the rise of multinational corporations brought people from various backgrounds working together, and this further led to the emergence of multicultural workers. HRM policy for these individuals became important because the capacity of each individual leads directly to the performance of the company (Snell, Dean, 1992; Wright et al., 1994, 1995). Hence, to establish appropriate HRM policy, it is important to understand how people with different backgrounds differ in practices, beliefs, values and preferences (Ismail, 2010). Culture can be defined as the total beliefs, institutions, values, rules, techniques and artefacts that characterize certain human population, or simply referred to as collective mind programming (Hofstede, 2010).

However, there is not a definite way of defining culture. Its definition varies depending on the point of focus, approach and the unit of analysis. The key elements which are mostly considered when defining a culture are religion, attitudes, norms and customs, language and values of a certain group of people. It can also be defined by lifestyle and behaviour of the group. Hence, corporate culture refers to the characteristics and behaviours of managers and employees in a corporation.

Over the years, cultures have played an integral role when it comes to managing employees in an organization. The difference in cultural practices leads to changing management practice of companies and the HR department is the most affected by cultural differences. (Dowling, Schuler, Welch, 1994; Triandis, 1993)

Challenges in managing cultural diversity in organizations

Creating diverse workforce in a company should include having people from different sociocultural backgrounds. Unifying people with different cultural backgrounds brings diverse talents, perspectives, and productivity (Orlando, Richard 2000). Hence, managing cultural diversity became a way to achieve competitive advantage over their competitors (Taylor et al. 1996).

However, managing different cultures is a challenge for many companies. One of the major problems caused by diversification of culture is communication barrier. For example, employees from different culture could find it hard to communicate with each other due to communication misunderstanding (Briscoe, 2009). The coexistence of many languages in one organization made normal communication inefficient for coexistence of employees and made it difficult for workers to get close with each other since they do not speak the same language. This further led to the lack of free flow of information for the entire organization. In most cases, managers would overgeneralize the policies of organization and strategies. However, this may not sit well with some of the other employees. In some cases, the policies may not go well with their cultural norms and practices. Such workers would work under protest and reduce their performance at work, while others would even seek employment elsewhere (Dirani, 2009).

Due to globalization, companies are opening increasingly more branches in different countries. These countries have different cultures, languages, and practices from the parent country of the company. When building local branches, many companies would employ workers from the local area. The culture of local people may not agree with operations of the

company, which made it hard for employees to adopt to the working environment of the company, not to mention improving performance and bringing negative affection to organizations (Lawler & Bae, 1998; Bae & Rowley, 2001).

On the other hand, decision making is another challenge in cultural diversity. Without agreements on policies or proposals, it is hard for workers with a different cultural background to come to a unanimous decision because workers are found to have different behaviours and attitudes. This was mostly due to national cultures of the individuals, but not the individuals' positions in the organization, age, gender, or profession. HR management is affected by four different cultural dimensions, individualism-collectivism; uncertainty avoidance; power distance - strength of social hierarchy, and masculinity-femininity - task-orientation versus person-orientation (international Culture, 2014).

Individualism refers to a social network which has been loosely knit. People from countries such as the United States, are known to focus only on themselves and tend to prefer individual decision making, promotions based on their market values and protestant work ethics. Collectivism, on the other hand, involves people who believe working in groups and looking after each other, particularly seen in countries such as Japan and Pakistan. Such individuals make decisions as a group; they carry out promotions from seniority and have less support on protestant work ethics. Individuals working in the same organization who possess either of the two traits would have a very hard time coming to agreements and making decisions in an organization with different opinions.

Power distance is another cultural dimension problems when it comes to HR management. It refers to the measure to which individuals in an organization who are less powerful accepting

that power should be unequally distributed. Workers from high power distance countries such as Mexico, insubordination is not tolerated in most cases. However, some countries such as the United States, which have low power distance, individuals frequently bypass the boss to get their work done. This creates a problem when employees from high power distance countries believe in a centralized decision-making system, whereas employees from low power distance countries believe in the decentralized decision-making system (Milikic, 2009).

Workers from some countries tend to prefer avoiding ambiguous situations. This is achieved by ensuring stable careers, rejecting deviant behaviour at work, formulating formal rules and keep seeking attainment of more expertise (Lawler, 2008). This creates a lifetime employment for such individuals due to their high uncertainty avoidance. Moreover, in some countries such as the United States, the rate of job mobility is very high, thus workers have low uncertainty avoidance.

In masculine societies, a good life is determined by an individual's success and money. Whereas in a feminine society, quality life is measured by one's relationship with other as a concern for their welfare (Friedman, 2007). These two societies can hardly coexist in one organization since one is concerned with making as much money as possible while the other tries to get along with others to acquire a quality life.

Transfer of HR practices in multinational corporations

The world is experiencing many changes from the revolution of globalization, especially in the business sector. Yet this has increased the tension in multinational corporations as they attempt to transfer their practices. Companies have learned to embrace the opportunities and limitations that come with their country of origin or operation, by determining diversity or standardization when it comes to implementing HR practices (Thite, 2011). In this complex scenario, HR department plays a crucial role in determining the success or failure of multinational corporations.

There are several options which are needed to be considered by multinational companies when it comes to transferring HR policies. First, most companies consider employing individuals from the host country, the parent country, or from a third country. Furthermore, the transfer of HR policies by multinational companies is also greatly affected by the home country's culture, the situation in the host country and the industrial relations which are involved. Lastly, it is the level of dependence of the subsidiary on the parent company to fulfil its obligations.

Transfer of HR policies can only happen from the parent company to its subsidiary and from one subsidiary to another (Lourdes Susaeta., 2008). This means that the transfer of HR policies is mostly from the headquarters to the subsidiaries. However, the reverse is also possible. According to globalization theory, most multinational corporations use the transfer of HR policies as a means to acquire a competitive advantage over competitors. Transfer of resources from the parent company equips the subsidiaries with a competitive edge over their rivals with extra resources.

There are several forces that determine the transfer of policy process. The level of the country is one of such factors. Additionally, successful transfer of policies is dependent primarily on cultural and institutional differences (Badea, 2013). The larger the difference, the harder it became for the process to take place, and vice versa. On the industrial level, the transfer of policies is affected by competitors in the industry. The competitive position of one organization is affected by competition experienced in other countries. Therefore, in order to ensure that HR policies are transferred successfully from the parent company, the company has to ensure that the subsidiary conforms to the cultures of the host country.

At the organizational level, the international business strategy affects the transfer of resources (Kundu, 2001). In some cases, businesses prefer HRM strategies to be short term and thus are under-utilized. Administrative heritage also affects this process. Each organization has an organizational administrative heritage which is shaped by the founders or strong leaders in the organization. This heritage represents the norms and values of the company and its social system. The nature of the subsidiary, its size, age, and ownership also help in determining the kind of policies that should be transferred to that subsidiary. The larger the subsidiary, the higher its chances of developing its formal policies (Cox, 2014). It is also easier for parent companies to transfer their policies to a new subsidiary than it is to an old one.

In the context of business generalizability, cultural and institutional distances are the most important factors to consider. Each subsidiary is tasked with maintaining legitimacy in the foreign environment (Alamzeb Aamir., 2013). In cases where the subsidiaries are forced to conform to the practices of the headquarters, they have to determine which policies work best for them and their extent. This is to balance the expectations of the company with those of the local communities.

Subsidiaries are required to accept the HR policies of the parent company without resisting or adjusting these policies. The subsidiaries are constantly seeking internal legitimacy within the corporation. They may achieve this legitimacy by becoming isomorphic with the environment. Most multinational corporations do not achieve their legitimacy by conforming to the local environment. Instead, they manage this through negotiations with several environments. These negotiations would lead to local modifications of the policies. According to most scholars, for the transfer of HR practices to be successful, a certain degree is required from the policies used in the headquarters. This is usually to the different cultural and institutional environment of the subsidiary.

The transfer of policy process is not a forced process. It takes a lot of negotiations between the headquarters and the subsidiary. Constraints in institutions and opportunities of the parent company provide the subsidiaries with leverage which they use to resist centralization. In some cases, they use this leverage to resist the transfer of policy process.

Conclusion

A clear HR practice does not exist in any organizations. Despite having multiple studies on HR practices, none of them could give an accurate explanation regarding the nature of human resource practices of multinational corporations. In most cases, the multinational organizations have to adopt hybrid practices. These are combinations of different practices gathered from the cultures and institutions found in their country of operation and some of these practices are easily affected by local conditions. Since HR practices are mostly affected by local conditions and internal factors, it is crucial for the company to make sure that they are as flexible and dynamic as possible in dynamic business environments should be open and ready to accommodate these changes to remain relevant and successful.

Certainly diversity in the workforce has become a reality. The impact of cultural diversity is dependent on the environment in which the company is operating. The more subsidiaries a company has in different countries, the more its culture is required to be diversified to accommodate to different workers. Even though we have embraced globalization and its aim of integrating human resources, differences among countries still occur no matter in economy, institutions, cultures and social practices.

Multinational corporations are emerging rapidly with greater interest in developing policies and strategies in order to secure their positions in regions with different cultures. There is an essential need to understand better the multinational corporations and the cultures of its workers and stakeholders to ensure successful transfer of HR resources and practices.

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