



HUMAN RESOURCE MANAGEMENT IN MULTINATIONAL COMPANIES: CHALLENGES AND STRATEGY

¹Akinseye Ezekiel Morakinyo PhD, ²Cornelius Femi Popoola, ³Joseph Adeniyi Kolawole PhD

^{1,2}Department of Business Administration, Joseph Ayo Babalola University, Ikeji-Arakeji, Osun State, Nigeria

³Library, Joseph Ayo Babalola University, Ikeji-Arakeji, Osun State, Nigeria
E-mail: ²pofec2010@yahoo.com

Abstract

This study reviewed the HRM challenges in multinational Companies. The study considered recruitment and selection, compensation and rewards, and performance management as major concepts of HRM in MNCs. The study identified political intrusion, cultural difference, language difference and communication skills, cultural adjustment and geographical locations as major factors affecting international recruiting and selection process in MNCs. The study also revealed political systems, laws and customs, labour union interference, economic climates and tax policies as major challenges facing MNCs in having best satisfactory reward and compensation. In addition, study revealed national culture, economic system, political system, legal system, organisational strategy, structure and culture as factors influencing best performance management in MNCs. The study proposed some significant strategies through theories and models for MNCs and recommended that HR managers should make sure that job descriptions are well writing, should ensure transparency at all stage of recruitment process and must guarantee confidentiality and practice of the same employment opportunity. MNCs should consider legal, socio-economic and cultural systems of a country when designing a balanced reward and compensation systems for their employees. Finally, HR managers should carry out weekly, monthly, quarterly and annual performance evaluations on each and every employees working performance.

Keywords: *Compensation, MNCs, Performance management, Recruitment, Rewards, Selection.*

I. Introduction

Multinational companies (MNCs) are now turns into an important ingredient of the global economy, particularly in terms of employment. MNCs controls and coordinates subordinates companies across national border lines and are therefore indebted to operate in various nationwide contexts (Shah, Yusaff, Hussain and Hussain, 2012). MNCs are described as ventures that engage in foreign direct investment and possesses or in several means, controls value added holdings in many countries (Duning, 2008). In the same vain, MNCs are privately owned organisation planned to organise, through employment agreements, interdependencies

between workers located in many nations (Hennart, 2008).

MNCs have been generally acknowledged as a key group of actors in international labour market system. Nobody can dispute the MNCs' importance in the present world employment environment, because MNCs increase income and employment in host nations and at the same time maximise investment, transfer technology and equipment to developing nations and contributes to innovations and inventions (International Labour Organisation, 2010; Heidenreich, 2012; Shah, et al, 2012). The success of MNCs and its performance expectations in international market is in part reliant on the potential of its human resource management and their competence to adapt and



change their resources tactically to the qualities of the broadening world playing meadow. As affirmed by Routledge (1995) the practice and knowledge of workers is a basis of competitive advantage for MNCs. However, whether this is achieved or not may possibly depend on having the accurate human resource strategies. This is because workers within organisations are the people that create, develop, market and sell products at the same time make decisions and put into practice for the success of the organisation. Therefore, human resources are very important to the growth of MNCs.

Recently, MNCs are concerned to adopt best international recruitment and selection strategies, satisfactory compensation and rewards, and quality performance management so as to be the global business leaders. In spite of their efforts and interest in realising these aforementioned, MNCs are still facing various challenges, which in turn affect the growth of MNCs. Many recent studies (e.g. Mohamed, 2011; Shah, et al, 2012; Kumar and Prasad, 2013; Wurim, 2014) have critically shown interest on the link between HRM strategies and MNCs growth. This study reviewed the challenges confronting MNCs and recommend sustainable strategies to surmount the identified challenges.

II. HRM Challenges of Multinational Companies

2.1 International Recruitment and Selection

Recruitment and Selections are concepts of human resource management that have different meaning. Both have been differently defined by many authors in various ways. The term recruitment is a procedure of seeking potential applicants in sufficient figures and qualities to occupy a vacant positions within organisation (Morrel, 2002; Zinyemba, 2014). Similarly, Patel, Doku and Tennakoon (2013) describe recruitment as method of determining organisation's requirements to employ the best candidate that is up to the requirements. While selection is described as the procedures fixed up in picking appropriate candidates from pool of applicants to fill a specific position (Patel et al, 2013). In the same way, CIPD (2010) define

recruitment as “the process of generating a pool of capable people to apply for employment to an organisation” (p. 2) and selection as “the process by which managers and others use specific instruments to choose from a pool of applicants a person or persons more likely to succeed in the job(s), given management goals and legal requirements” (p. 2). Effective recruitment and selection of employees is an essential actions of HRM (Glover, 2007). In addition, CIPD (2010) state that recruitment and selection forms the most central part of the activities of HRM, specifically, the acquisition, development and reward of employees.

Based on the above definitions, recruitment is a way of drawing job applications from interested candidates. This action creates a set of applicants who desired to be engaged by an organisation from which candidates found appropriate can be employed. Selection is referred to the process of selecting or choosing the best applicant from a team of potential applicants who have applied for a vacant position. In short, selection refers to the process of recognizing the most best candidates from a large number of applicants, while recruitment refers to drawing job applications from interested candidates. It is a widespread practice for MNCs to seek for recruitment of new workers internationally. But, many MNCs faced various challenges in the course of recruiting and selecting the best candidates from a pool of applicants, some of the factors identified affecting international recruiting and selection process of MNCs are: political intrusion, cultural difference, language difference and communication skills, geographical locations, personal characteristics, cultural adjustment and organisational requirements (Mathis and Jackson, 2005; Dudovskly, 2012; Zinyemba, 2014).

Political intrusion: Government forced and controlled firms to encounter recruitment challenges (Zinyemba, 2014). Political divergence has spilled over into MNCs. It has became clear from literatures that politicians from time to time may influence the recruitment and selection practice by means of referring their candidates for selection to vacant position. In

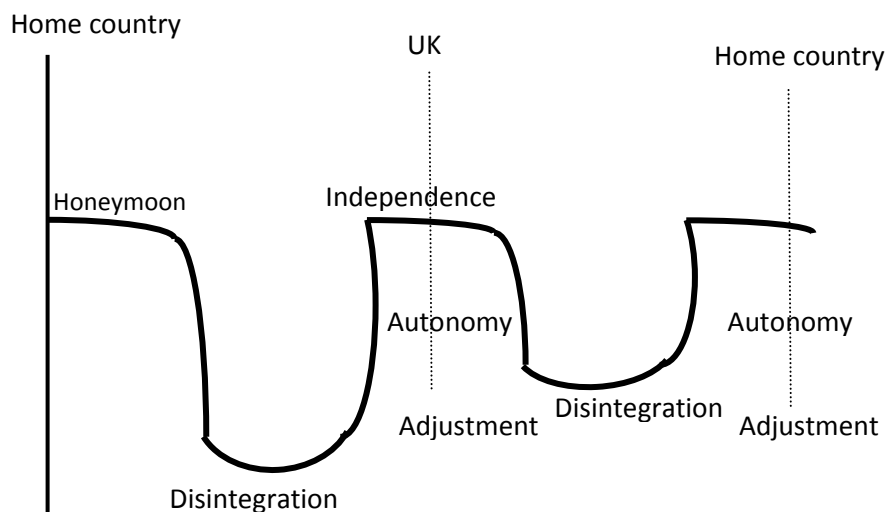
addition, MNCs commonly obey government or politicians in host country for fear of losing market share. Occasionally these marks in the firm employing under qualified employees at the expense of experienced and qualified candidates. Political intrusion has led many MNCs to employing workers on the root of their political connection, a challenge which potential workers face. Because of political intervention in some countries, MNCs experienced a predicament from which political setting should MNCs be recruited.

Cultural difference: As MNCs spread out their recruiting to other nations and as unlike cultures mix up, being culturally expert is vital to MNCs' success in recruiting process. Theoretically, anthropologists broadly grouped cultures into two which are: collectivist and individualistic (Wheeler, 2008). Collectivist cultures are family-oriented and group-oriented, while individualist culture is where achieving things separately of others is regarded as virtue (Wheeler, 2008). Cultures are also separated into body language as

well as the manner people address each others . Many MNCs are open to this and believe that applicants from some cultures will not make direct eye contact. In addition, some applicants show bodily difference by keeping or bowing their bodies lower than those of candidates considered superior. This implies that any different behaviour often influence MNCs judgement as to whether an applicant is suitable or fitting for a particular position.

Cultural Adjustment: Leung, Ghagat, Buchan, Erez and Gibson (2005) state that cultural adjustment is a serious and complex problem faced by MNCs, and individual foreign culture differ in terms of their response and coping behaviours. The concept of adjustment curve shown in W-Curve, portrays in Fig. 1, is useful in illustrating the distinctive phases that MNCs likely to be faced during adjustment. This curve shows different phases of culture shock and is found on psychological responses to the task of each phases (Leung, et al, 2005; Ibbitson, 2011).

Fig. 1: W-Curve



Source: Adapted from Ibbitson, (2011)

From the above diagram, the **Honeymoon** stage is generally experienced when MNCs first enter

in a new foreign culture. This is a stage where differences are exhilarating and stimulating.



Thereafter, **Disintegration** stage can be manifest after a few weeks or months of entrance into new foreign culture. At the outset, those stirring cultural disparities may now result MNCs to feel unconfident or perplexed, as MNCs move violently to know the system of the foreign culture they find themselves in. At disintegration stage, MNCs may find themselves confused in recruitment and selection process of new staff. Thereafter, **Adjustment** stage come to existence, at this stage MNCs may feel frustrated with the foreign cultural disparities they come across. Conceivably, with the studying of working environment along with relationship with employees, MNCs will possibly find themselves make contrasts with their home culture and decide whether they prefer their home country or not. Furthermore, **Autonomy** stage is a stage that MNCs worked out strategy to operate and function in foreign cultural environment. Alos, this is a stage that MNCs adequately relates with employees and government agencies, and a stage where MNCs satisfactorily understand and deal with new working environment. Finally, **Independence** stage is a stage that MNCs have the feeling of self-confidence and more absolute understanding.

Language difference and Communication Skills: Language is an integral and central ingredient of people and social lives (Newman, Bavelier, Corina, Jezzard and Neville, 2001). When it comes to recruitment and selection of employees in language difference countries (e.g. French and German language countries), recruiting and selecting the right candidates to occupy a vacant positions can sometimes be a complex task for MNCs. This can be more challenging for MNCs when language like French, German, Dutch etc. is part of the requirements. In addition, some employment positions rely heavily on fluency in specific language, therefore, without intricacies knowledge of the specified language, MNCs may end up employ a candidates who may only practical rather than completely immersed.

Geographical Location of MNCs: Geographical location of MNCs may possibly pose challenges for recruitment (Mathis and Jackson, 2005). In a

situation whereby a firm is sited in a geographical area or country where terrorism exist. This may limit the pool of applicants to apply for job positions. In addition, potentially experienced and qualified candidates may not want to be relocated to places there their lives and families' lives will be prone to threat and intimidation. However, other factors such as personal characteristics (i.e. risk-taking skill, flexibility, ability to cope with stress and stand uncertain situations), organisational needs (such job-related skill, technical abilities and organisational knowledge), cultural adjustments (such as cultural alertness and flexibility, ability to recognize diversity and international experience) can pose serious challenges for multinational companies in having best international recruitment and selection (Dudovskly, 2012; Patel, Doku and Tennakoon, 2013; Zinyemba, 2014).

2.2 *Reward and Compensation*

Compensation is refer to the payment, that is, salaries or wages given to employee in exchange for their job commitment to the organisation, while reward is a thing akin to monetary compensation, promotion and benefit given to employee in recognition of service, effort or achievement in the organisation (Henderson, 1994; Herod, 2009). In substitute for employee's job commitment, service, effort and performance, MNCs offers both rewards and compensation to workers. According to Haile (2002) satisfactory rewards and compensations prospectively draw a quality employees, uphold the contentment of active workers, retain quality staff from going, and motivate or encourage them in the place of work. Reward and compensation play a vital role in the ability to draw, motivate, encourage and retain the gift they require to be successful (Herod, 2009). International compensation and reward are one of the most difficult concept of international HRM, this is because, pay system have to conform to local customs and laws. International compensation and reward systems are becoming more challenging problems for MNCs' human resource managers (Wetlaufer 1996; Haile, 2002). MNCs' human resource managers faced a range of challenges, among are: political



systems, laws and customs, labour union interference, economic climates and tax policies (Haile, 2002). As MNCs spread out globally, whether through acquisition, growth, or cross-country union, the self-rule of their international actions bring in major dissimilarities in the types and levels of reward and compensation to be offered by every country (Haile, 2002).

2.3 Performance Management

Performance management (PM) is the process by which human resource managers gain a joint understanding of job expectations and targets, exchange performance feedback, discover opportunities for both learning and development, and assess performance outcomes (Shih, Chiang and Kim, 2005). NSW Industrial Relation (2013) also define PM as a continuous phase which originates with organisation's recruitment decision and consist of setting performance principles, checking and evaluation, response and role planning, as well as learning and development actions. The theoretical bases for PM lie in two theories, namely: Goal-setting theory and Expectancy theory (Atkinson and Shaw, 2006). The Goal-setting theory propounded by Locke and Latham (1984) proposes that not just does the task of particular goals end in better performance, but presuming goal acceptance, escalating the challenge of goals guides to maximise motivation and enhances performance (Atkinson and Shaw, 2006). Expectancy theory puts forward that individuals change their actions according to their expected satisfaction in realizing or attaining certain goals (Vroom, 1964). These theories mutually have significant implications for PM design processes.

Traditionally, performance management has been adopted as a guide for worker performance. PM has extended from assessing employee's performance to more comprehensive roles such as motivation, training and development, and goal setting (Mabey and Salaman, 1995). It is through performance management that MNCs can create and maintain work place atmosphere

that values permanent improvement, become accustomed to change, struggles to achieve determined goals, promotes creativity, encourages learning and expert development and appointing and rewarding for workers. But, various challenges such as country culture, economic system, political system, legal system and organisational factors such as strategy, structure and culture (Mendonca and Kanungo, 1996; Entrekin and Chung, 2001; Shen, 2004; Shih, Chiang and Kim, 2005) have been contextualised to affect the operations of MNCs.

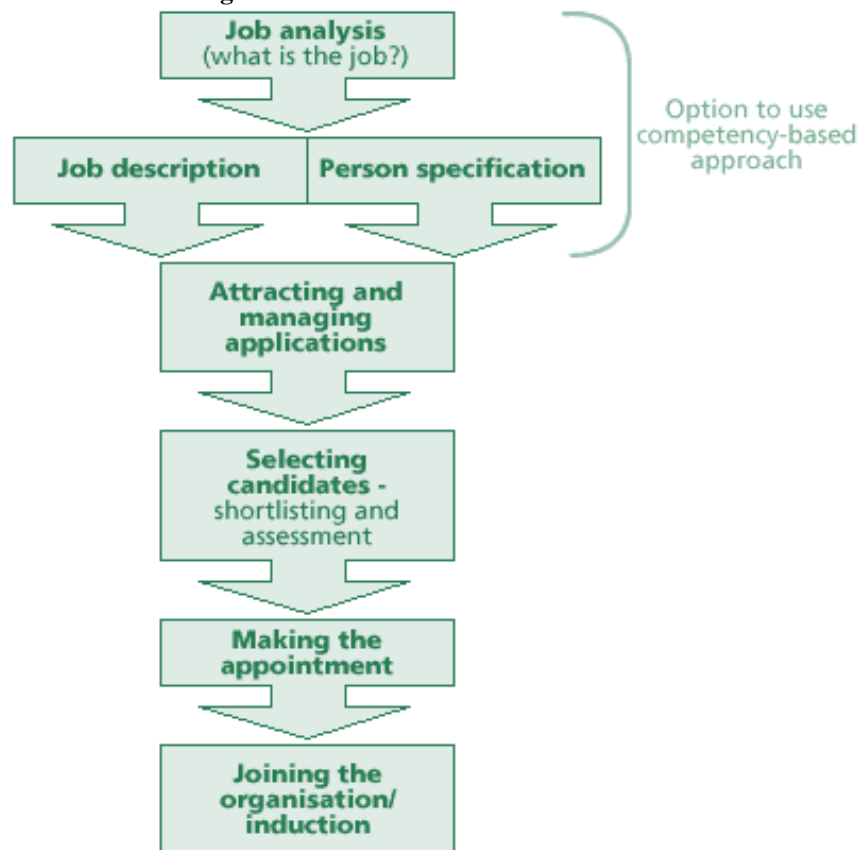
Shih Chiang and Kim (2005) found that national culture is a significant variable that affect MNEs in implementing performance management. Different exercises are attributed to country culture in which company's headquarter is located (Suutari and Tahvanainen 2002). A great number of studies (e.g. Dowling et al, 1999; Suutari and Tahvanainen, 2002; Fenwick, 2004) on PM of international employee is originated from western multinational companies nevertheless researches of global performance in MNCs from developing nations are starting to surface (Shen, 2004). These studies corroborate with the analysis that PM practices of MNCs commonly symbolize a combine of local concepts and systems, which in turn are influenced through different host-related challenges mentioned above.

III Sustainable Strategies

3.1 Recruitment and Selection Strategy

It very important to propose recruitment and selection strategies for MNCs particularly at this vital period that majority of MNCs are desiring for best applicants who will fill their vacant positions. The propose in Fig. 2 below will endow MNCs human resource managers with direction in executing successful recruitment and selecting the most excellent candidate for the position on merit and with equality of opportunity.

Fig. 2: Recruitment and Selection Model



Source: CIPD (2007)

Adequate implementation of recruitment and selection strategies will unquestionably have an important influence on MNCs operations and as well boost their status. However, ineffective recruitment and selection may have cost repercussions for MNCs (Philbeam and Corbridge, 2006). Therefore, the graphic synopsis of Fig. 1 above presents the most significant strategies of recruitment and selection method that need to be performed by MNCs.

3.2 Compensation and reward strategy

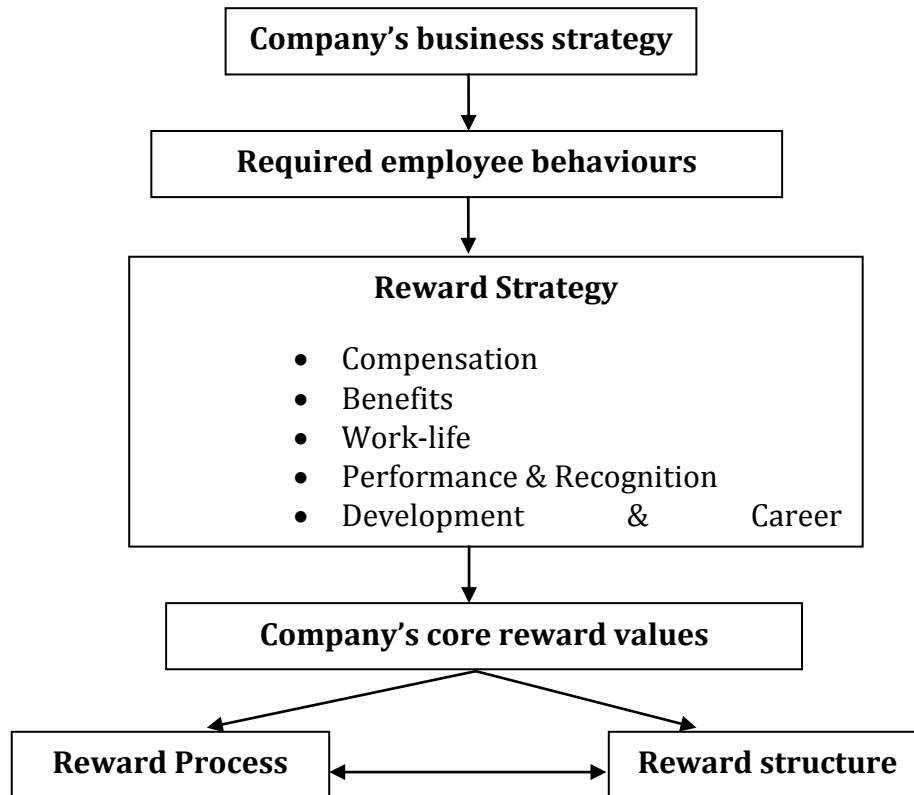
Compensation and reward strategy begins with a thought of the company strategy, and this is reliant on company's internal and external operating environments. Armstrong (1993) states that internal operating environment encompasses company's structure, culture, working systems and procedures. Lawler (1995) developed a Strategic Reward Model, this model suggests that compensation strategy can create a helpful role to the development of worker behaviours. At



the same time, compensation is the only component of the international MNCs' human resource strategy. Lawler (1984) as cited in Lewis (2001) submits that there must be similarity between different phases of human resource management strategy, in few of that, compensation and reward arrangement needs to fit the qualities of the MNC's human resource strategies like job design, leadership styles etc. As shown in Fig. 3 below, the model consist of three important components, namely: the company's core reward values, structural issues and process features (Lawler, 1995). Company's

core reward values are described by Lewis (2001) as what the company represent, which notifies the codes on which the reward strategy is established. According to the same source, structural issues take account of the strategy characteristics, for example, profit- or performance-related pay, and the managerial policies surrounding these characteristics. But, the process features consist mostly how the message of reward strategy is discussed and put into practice and the level to which workers are involved in the design and execution of the strategy.

Fig. 3: Strategic Reward Model

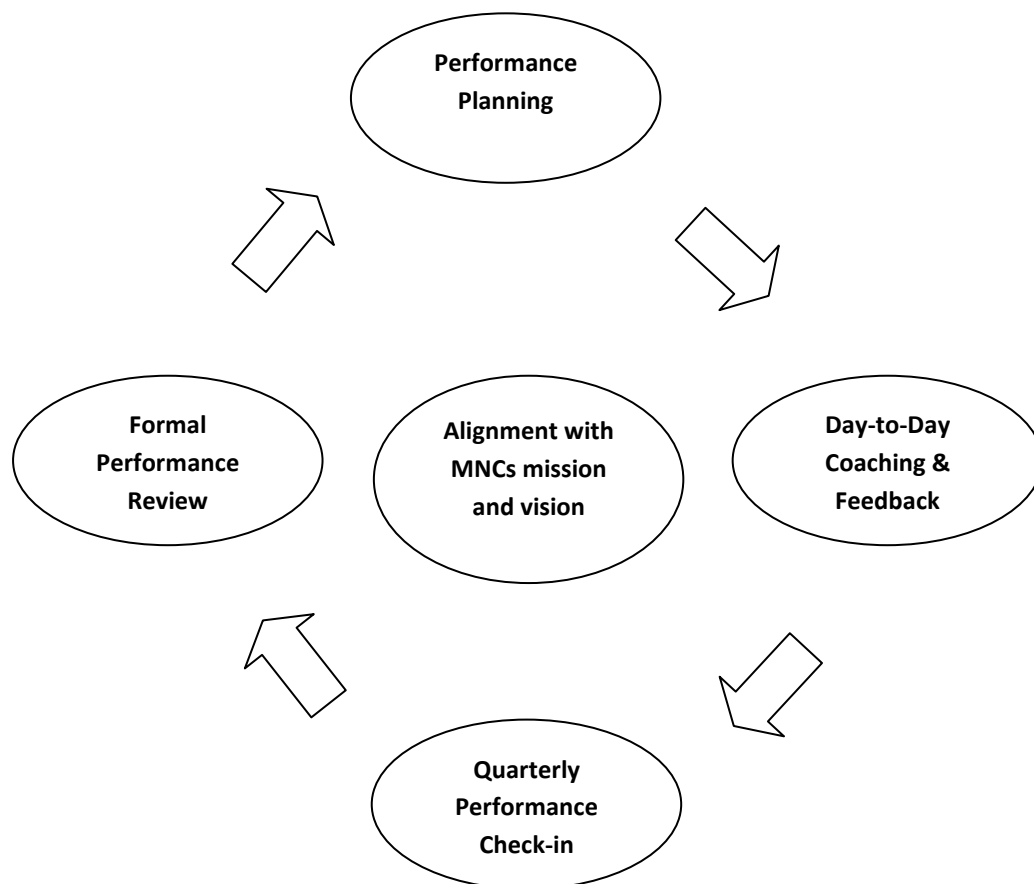


Source: Lewis (2001) developed by Lawler (1995)

3.3 Performance Management Strategy

Effective performance management required four process, namely: performance planning, day-to-day coaching and feedback, quarterly performance check-in and formal performance review. This illustrated in the Fig. 4 below:

Fig. 4: Performance Management Process



IV. Conclusion and Recommendations

This study examined and evaluated the challenges confronting MNCs and recommend sustainable strategies to overcome the identified challenges. In this study, three (3) HRM concepts that is recruitment and selection, compensation and rewards, and performance management have been defined, critically evaluate the challenges that MNCs faced on the selected HRM concepts. This study proposed

some pertinent strategies for MNCs through theories and models, so as to have successful recruitment and selection process, better compensation and rewards and quality performance management. The study finally deduced that for MNCs to compete and survive successfully, accomplish international advantages and stay internationally competitive, they need to follow various strategies postulated in this study. Based on the above evaluation, the



following recommendations are made to overcome the identified challenges confronting MNCs.

4.2.1 Recommendations for Recruitment and Selections

- MNCs human resource managers should make sure that job descriptions are well writing, if possible should be assigned recruitment agencies so as to realise the company's goals.
- MNCs human resource managers should make sure that they are transparent at all stage of recruitment process and must guarantee confidentiality and practice of the same employment opportunity.
- MNCs should consider discrimination and consistency when designing their recruitment and selection policy.
- Finally, administrative process should be handle economically when carrying out recruitment and selection process.

4.2.2 Recommendations for Compensation and Rewards

- MNCs must be cost effective particularly in choosing technically capable and experienced staff by means of balancing their budgets with rewards/ compensation programs.
- MNCs should endeavour to consider legal, socio-economic and cultural systems of a new foreign country before designing a balanced reward and compensation systems for their employees.
- In view of the fact that norms for staff reward and compensation varies across the countries, therefore, MNCs human resource managers should cautiously adopt the use of motivational incentives for their employees.
- In addition, MNCs human resource managers should ensure that paid expenses are clearly stated in the appointment letters.
- Finally, MNC should ensure that expatriate reward and compensation

package are well designed along with their company budgets.

4.2.3 Recommendations for Performance Management

- MNCs human resource managers should make sure that they carry out both weekly, monthly, quarterly and annual performance evaluations on each and every employees working in their company.
- MNCs human resources managers should ensure that assessment on work success are holistically conducted on each employee as well their confrontations over the precedent year.
- MNCs should design work performance targets and expectations for their employees.
- MNCs should relates to their employees by discussing their problems, devise solution and monitor their performance. Doing this will enable MNCs human resource managers to manage poor performance in their company.

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