

# The Transfer of HRM Policies and Practices in American Multinational Hotels in Saudi Arabia

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## ABSTRACT

Global competition in the international business environment has pushed companies to achieve competitive advantage through mergers, acquisitions and through locating their subsidiaries in less developed countries for cost effectiveness. Consequently, the competitive pressure has increased the significance of human resource management (HRM) in multinational companies (MNCs), and MNCs have recognised the significance of the transfer HRM process across borders. This study examines the transfer of HRM policies and practices of US MNCs to their subsidiaries in Saudi Arabia. The aim of the study is to determine the extent to which US MNCs transfer HRM policies and practices from their Headquarters to their subsidiaries in Saudi Arabia; and identify the factors that facilitate and inhibit HRM transfer. The paper is based on an investigation of the interaction between home-country and host-country effects in determining HRM policies and practices in MNCs in the context of the Middle East. The study adopts a mixed methods approach of documentary analysis, focus group interviews of employees and in depth interviews of key informants in four subsidiaries of US owned international hotel chains located in Riyadh, Saudi Arabia.

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## INTRODUCTION

HRM seeks to contribute to the competitive advantage of MNCs through the strategic deployment of workforce located in different countries across the globe (Dowling and Welch 2004). This study examines the transfer of HRM policies and practices of United States (US) MNCs

in Saudi Arabia (SA). It aims to determine the extent to which US MNCs transfer HRM policies and practices from the headquarter (HQ) in US to subsidiaries in SA. The study investigates the interaction between home-country and host-country effects in determining HRM policies and practices in MNCs in the context of the Middle East.

The study examines the theoretical frameworks of HRM transfer to MNC subsidiaries, especially institutional theory (DiMaggio and Powell 1983), and discusses the role of cultural conditions and host country institutions in the transfer of HRM policies and practices. Further the possible influence of the institutional environment that may create a difficult and challenging situation for MNC subsidiaries and constrain their capacity to preserve their home-country HRM practices is examined. The study adopts a mixed methods approach of documentary analysis, focus group interviews of employees and in depth interviews of key informants in four subsidiaries of US owned international hotels located in Riyadh city, SA. The paper will report on the preliminary findings of the four case studies.

The gap in the HRM literature addressed is a dearth of literature that focuses on Saudi firms and HRM practices (Ali 1990; Tayeb 1997; Budhwar and Debrah 2001) particularly with reference to the transfer of HRM policies and practices from dominant US based MNCs to SA. Further, there is a lack of information regarding HRM systems in developing countries, particularly in the case of SA where there is a shortage of HRM knowledge, professionalism, skills and talent within local organizations.. The significance of this study to the HRM literature is twofold: The practical contribution of this study relates to the transfer of HRM policies and practices of US MNCs in SA from different perspectives. In addition, this empirical study will investigate the key forces influencing the shape and implementation of US MNCs' HRM practices at their subsidiaries in SA. Theoretically, this study aims to contribute to the current body of knowledge by revealing the constraints and opportunities posed by SA as the home country with regard to the transfer of American MNCs HRM policies and practices. Hence, it is intended that the study will help to expand the scope and extent of current HRM literature particularly with regard to the hotels sector as well as contribute to the further business development and understanding

of HRM policies and practices utilized within SA.

The paper is structured as follows. The literature review is followed by an overview of the theoretical frameworks of the process of HRM policies and practices transfer; these frameworks are cultural and institutional theory. This section identifies the main factors of the research framework such as; home- and host-country effects, corporate impact, industrial level and HRM factor and the possible role of all these factors on the transfer of HRM policies and practices. Then it is followed by a presentation of the research methodology. Finally, the conclusion is outlined.

### **Literature Review**

The pressure of global competition has forced many corporations to adopt the same set of 'best practices' that produce uniformity in order to respond successfully to the international competitive environment (Edwards and Rees 2006; Gruenewald and Smith 2014). Moreover, (Ohmae 1990) argues that MNCs operate a borderless world have turned into transnational corporations that promise boundless prosperity while gaining strong global corporate identities. The globalization thesis derives from the logic of industrialization that calls undeveloped countries towards 'pluralistic industrialism' (Kerr 1960; Fry and Mees 2014) The contemporary globalization/convergence theory assumes that 'best practices' can be universally adopted and be effective (Pudelko and Harzing 2007; McDonnell, Lavelle, and Gunnigle 2014) For example, (Katz and Darbishire 2000) have observed a phenomenon referred to as 'converging divergences' which refers to the growth of the convergence approach in HRM practices among industrialized countries, with an increase of the divergence of employment practices evident in respective countries. Hence, the convergence theorists argue that Western managerial practices can be transferred to developing countries (Galang 2008) and as such the research setting of this study in SA is highly relevant to this topic.

In exploring and examining the interactions between MNCs and the national business system, the literature focuses on two frameworks – the cultural and comparative institutional approaches (Hofstede 1997; DiMaggio and Powell 1983; Edwards and Rees 2006; Thang et al. 2008; Smith et al. 2012; Clark 2014). The cultural approach explains organisational structure and practice as a collective of shared cognitive structures. The approach also explains organisational patterns as controlled by shared ideas and considerations. This approach has been supported strongly by (Hofstede 1980; Laurent 1986; House et al. 2004; Trompenaars and Hampden-Turner 1998). For example, Hofstede (1980) hypothesizes that the dominant value patterns of managers and employees diverge based on the five dimensions of cultures. These dimensions are; power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, and long term orientation. He argues that power distance is correlated to preferences based on the authority distribution, whereas uncertainty avoidance related to the significant of the rules, however, these dimensions might have vital implications for the preference of certain types of entry modes to particular host country (Hofstede 2001). Adapting the cultural approach in this study assists understanding comprehensively the picture of the business organisation in the host country environment.

Institutional theory argues that social, economic, and political factors constitute institutional structure and this has a strong impact on business organizations (DiMaggio and Powell 1983). The dominant national institutions are strong and robust in encountering the pressure of change (Brookes et al. 2011). Uniform pressures are considered to lead to uniform intra-industry structure and organizational practices through imitation, coercion, and normative and regulatory behaviour (DiMaggio and Powell 1983). Firms that share the same environment are believed to become structurally similar as they respond

to pressure and will eventually demonstrate isomorphism (DiMaggio and Powell 1983). Moreover, institutional theory suggests that organizational performance tends to be more efficient if organizations receive institutional support (Hall, Soskice, and Press 2001). In international comparative management the institutional approach is referred to as a 'business system' approach (Whitley 2000). (Morgan 2001) emphasizes the importance of the term 'national business systems' referring to an institution's control over products, labour, and financial markets to create the 'national logic'. The national logic identifies the national effects of both the home and the host country that are represented by the activities of MNCs. This is controlled by the cultural and institutional forces from the home country, but constrained by the need to conform to the distinctiveness of the various national contexts in the host country (Whitley 2000; Edwards and Kuruvilla 2005). Due to the strong relevance of the comparative institutionalism approach to this research, this study will adopt a framework which is informed by institutional theory based on the four levels (national, industrial, organizational, and HRM level). The following section explains the four levels of this framework (see figure 1 for an illustration of the framework).

#### **National Level (Home and Host Country Influences on the Transfer of HRM Practices)**

In the process of HRM transfer, there are two different business systems involved; home country (American MNCs) and host country (SA). The transfer process of HRM policies and practices depends on the institutional and cultural differences between the two business systems and the distinctive characteristics of the home and the host countries. It is important to analyse the home country effects in order to identify the way US MNCs adjusted HRM policies and practices for SA. The significance of the influence of the home country is based on the embeddedness of MNCs in the business system of the country of origin (Ferner 1997). American MNCs are known

to be centralized and formalized in transferring practices to their subsidiaries. These practices include productivity bargaining, union avoidance and managing for performance systems (Edwards, Colling, and Ferner 2007; Harzing 2001; Ferner 2000; Ferner et al. 2004). According to (Almond, Edwards, and Clark 2003) American MNCs tend to be embedded to the country of origin by standardizing and centralizing their HRM systems and industrial relations internationally. Furthermore, based on the diffusion concept, organisations share the same environment and become structurally similar as they respond to pressure to demonstrate isomorphism (DiMaggio and Powell 1983), US MNCs tend to disseminate their best practices all over the world. Investigating American national business systems provides an understanding of the home country effects on the transfer of HRM practices within MNCs in SA. The country hosting the subsidiary organisation also has a strong effect on shaping HRM practices within MNCs (Rosenzweig 1994). The host country effects include cultural characteristics, legal, social, economic, and political systems (Ferner, Edwards, and Tempel 2012).

The process of transfer is determined by the permissiveness/-openness of the host country environment and whether it possesses fewer or greater constraints on business. In contrast, the process of transferring country-of-origin practices may be prevented based on a constraining/closed host country environment which is highly distinctive (Whitley 2000; Vo and Stanton 2011; Vo and Hannif 2012; Connell and Burgess 2006) The power of the host country over the MNCs is determined by the combination of the internal strength represented by the integration of the national business system and the socio-economic infrastructure (Vo 2004).

#### **Sector Level**

At the industrial level, it is worth considering the role of the industry or the sector in terms of analysing the process of the transfer of HRM

practices of MNCs (Coiling and Clark 2002). This is because the role played by industries is varied because of different forces involved in international competition (Molz, Ratiu, and Taleb 2010). Some industries compete globally in one country and thus are affected by the competitive environment in another country. Global industries are heavily related to the MNCs headquarters and rely more on other subsidiaries. Global industries are supported by the home country in terms of technology and managerial expertise therefore; these companies face less pressure from local isomorphism. In this context the, HRM practices of MNCs are transferred from the home country. Multi-domestic industries mean that the competition climate in one country is independent from the headquarters and not affected by other environments because they depend more on the local market (Prahalad and Doz 1987). These types of industries gain legitimacy by acting locally, and by being more responsive to the local market. The role of HRM in this type of industry is more likely to be locally responsive and have a domestic strategy rather than a global orientation.

#### **Corporate Level**

One of the most important factors influencing the transfer of HRM practices are firm specific practices and the critical capabilities of MNCs (Vo and Hannif 2012). For example, there are management practices that closely follow the parent company practices in some subsidiaries, while others may more closely resemble the HRM practices of the host country (Coiling and Clark 2002). Such practices might play crucial role in impacting the process of the transfer HRM policies and practices from US MNCs to their subsidiaries to SA. There are also several organisational factors that influence HRM transfer. These factors relate to business strategy, which is considered to be one of the key source of HRM policies and strategies (Bartlett and Ghoshal 1999). Administrative heritage presents the characteristics of organisations adding the impact the organisation directions, structures, culture and strategy (Baumueller 2007). Other

factors influence the nature of the subsidiary such as function, age, and size and ownership type. For example, in some MNCs the HRM practices are more formalised by age, size, and the HRM function (Beechler and Yang 1994).

### **HRM Level**

The dominant assumption regarding the transfer of MNCs HRM policies and practices in the literature focuses on HRM as a potential source of competitive advantage over local firms (Whitley 2000; Bersin 2004; Audea, Teo, and Crawford 2005). From an institutional theoretical perspective, researchers have investigated how the diffusion process of organizational practices across nations occurs (Vo and Rowley 2010). In studying MNCs and the diffusion of HRM practices across countries, it is appropriate to consider institutional theory (DiMaggio and Powell 1983) in order to capture clear perspectives of the national business systems and the expected institutional constraints and possible opportunities. MNCs all over the globe are challenging different institutional pressures (Ferner et al. 2011). Hence, it is significant for MNCs to ascertain the legitimacy of the host business environment in order to operate successfully overseas, thus conforming to the legal and cultural environment (Vo and Rowley 2010).

From a resource-based perspective, it has been argued that the successful transfer of HRM practices to sustain competitive advantage occur when the home company's resources in the HRM areas can provide MNCs with a significant source of competitive advantage (Taylor, Beechler, and Napier 1996). Therefore, applying effective HRM practices such as selection and recruitment; training and development; performance appraisal; and compensation benefits, is significant if it contributes to superior performance in home country operations (Wright et al. 1999; Becker and Huselid 1998). Conversely, the transfer of home country HRM practices becomes unnecessary, when MNCs are more profitable in

producing low value added activities and when the HRM practices are insignificant with regard to competitive advantage. According to Liu (2004), the international approaches of HRM can be seen by direct and indirect complex transfer mechanisms in MNCs. The direct category refers to a formal set of HRM policies, rules, programs and procedures that are directed by the home country. The indirect category refers to the type of control created through the transfer process of the international managers, and refers also to the culture of the organizations that include corporate values and philosophy (Liu 2004). Therefore, the relevant international managers or expatriates have a significant role in implementing the HRM policies and practices (Harris and Holden 2001).

### **METHODS**

This study examines four case studies of American hotel sites in Riyadh, the capital city of SA. The four cases were selected in order to answer the core research questions of "to what extent do American MNCs (in the hotel sector) transfer their home country HRM policies and practices to their subsidiaries in SA?"

The purpose of a case study is to examine in depth the transfer HRM policies and practices from American HQ to new host country as SA. Four case studies of US owned MNC hotels are selected. Through the case study approach it is possible to examine the details and processes around the operational HRM practices of the Saudi subsidiaries and to compare the subsidiaries of each multinational in terms of similarities and differences in the HRM operations. The cases assist identifying the main forces that pose constraints and opportunities on the process of the transfer of HRM policies and practices, through a cultural and institutional framework. Further, these cases help explore the HRM policies and practices that can or cannot be transferred to subsidiaries and the reasons behind these outcomes. In this research the cases have been selected purposely and according to the extent to which it can

provide rich and deep data. Within each case study documentary and interview information was collected. The documents include HRM policies, HRM guidelines and subsidiary web sites. For the interviews, respondents were selected according to their positions and seniority within the organisation. Respondents included; general managers, HRM managers and training managers. Face to face interviews were the first source of data collection with (General Manager, HR Manager, and Training Manager) in order to collect detailed information on HRM policies and practices. The second source of interviews was with focus groups with employees from different departments of the hotels such as (reception, operators, marketing and sales, housing, food and beverage, HR, and accounting). Each focus group comprised five members included employees who were asked to reflect on the HRM practices in their areas of the hotel (Boateng 2012). The average focus group took over one and a half hours to conduct.

This research study depends on an explanation building technique for data analysis. According to Yin (2003), explanation building is used in an iterative process when the theoretical propositions are compared with initial findings and the explanation is then built. These findings are used to analyse data that is collected from all the cases and the insights are used to revise the explanation. In this research the literature review helps the researcher to gain theoretical insights that assists to create the themes and issues for the fieldwork (Gibbert, Ruigrok, and Wicki 2008). The data analysis approach is an iterative one; because of the continuous interaction between theory and the evidence gathered throughout the research process. The research propositions which were based on the literature have inform the data collection and analysis stages but also they have to be refined as a result of these processes.

This research presents two forms of case analysis. First, there are the within-case analysis that compares data and patterns within one core case (the subsidiary as a unit of analysis). The within-

case analysis exposes perceptions about the transfer of HRM practices to a specific subsidiary. Second is the cross- case analysis that compares data across the four subsidiaries to find either similarities or differences. The cross-case analysis help answering research question and issues through identifying any differences in the process of the transfer of HRM practices of American MNCs in SA. It helps identifying which HRM practices were adapted, what are the reasons behind these adaptations and what should be changed for better adapt to the context of SA. To ensure reliability, this study used the documentation of the data collection process and validates interview protocols by other studies that increases further its validity (Wachter 2003; Yin 2003).

#### MANAGERIAL IMPLICATIONS

It appears that the big challenge that may face American MNEs, is how to recruit more locals, particularly females in the hotel industry. Female workforce participation in Saudi Arabia is limited due to Saudi social traditions and expectations. The findings of this study revealed that locals believed in the negative stereotype about working in hotels for both genders, but mainly for females. In addition, it is not legal to recruit women to work as receptionists. (Ministry of Labour, 2013). When recruiting females, the organisation was obliged by the labour laws to prepare a specific workplace environment that included a place of employment segregated from the males' workplace. Women in senior managerial positions in all hotels had little power and authority and this included local and expatriate females. They could perform roles such as the director of operations. Saudi and non-Saudi women must comply with the country's laws: they had to be aware that they must wear the *abaya* as part of the country's religion and culture. In this case, MNEs needed to recognise the local culture and religion legislation. Through mapping the cultural differences, MNEs could become aware of cultural differences.

MNEs in Saudi Arabia have entered the Saudi Arabian market and are running businesses in the

country with a local partner. The local partner is sometimes considered a third party in managing the hotel operations (Ministry of Labour, 2013). MNEs needed to recognise the local institutional environment and know their Saudi partners. Through organisational learning, MNEs could perform according to the local legislation requirements, through creating relationships with the Saudi partner. Further, this study revealed the significance of organisational learning in terms of international transfer activities, within the local cultural and institutional contexts. With continuous internationalisation, MNEs have diverse workforces. The extant literature confirmed that the exchange of knowledge, similar to the exchange of best practice, requires employee willingness to create a platform to exchange and expand knowledge (Bartlett & Ghoshal, 1998). However, the key contribution of this study is that knowledge sharing within subsidiaries was essential for a more integrative IHRM approach in MNEs (Kostova et al., 2008; Poedenphant, 2002). In this case, MNEs need to recognise the necessity of cultural awareness and associate it with organisational culture. It is vital that MNEs recognise the differences between employees through cultural learning and adopt diversity management to create global standardised practices. MNEs needed to recognise the local culture and religion legislation. Through mapping the cultural differences, MNEs could become aware of cultural differences.

## CONCLUSION

The paper has provided a discussion of the factors contributing to the transfer of HRM policies and practices of MNCs. It has outlined two contrasting positions, that of globalisation and nationality as being key determinants. The globalisation thesis suggests that organisations move toward homogenisation by following the same organisational behaviour, including HRM policies. The nationality thesis suggests that national institutions and culture has a strong impact on organisational behaviour at both home country and host country. However, both arguments are complementary, since there is an ongoing interaction between national business systems of organisations in the global market.

The key contribution of this study is to examine HRM policies and practices of selected US MNCs in SA. Specifically it explores the process of the transfer of HRM policies and practices within US MNCs towards SA subsidiaries. It is anticipated that though investigation of four multinational hotels through cultural and the institutional settings may uncover new factors that influence the transfer of HRM policies and practices from the US to SA. Also this study contributes to the existing body literature review through the investigation of new host country impacts SA in applying American HRM policies and practices. This may help other researchers investigate further the impact of Saudi culture on western HRM practices. There are also implications for HRM practitioners in SA who seek to replicate Western HRM practices and policies. ■

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