THE ‘SOCIETAL-EFFECT’ APPROACH AND THE HRM PRACTICES: THE CASE OF MULTINATIONAL SUBSIDIARIES IN A DEVELOPING COUNTRY

Using the ‘societal-effect’ approach, this study investigates the impact of societal institutions on human resource development/management processes and practices of multinational corporations in Bangladesh. Four in-depth case studies of European multinational subsidiaries revealed the presence of different degrees of influence—largely attributable to societal-effect—on the human resource practices in these subsidiaries. The study’s implications are given.

The management of human resources in multinational corporations (MNCs) is more complex than in domestic organizations, largely because MNCs operate across national boundaries involving different societal contexts (Scullion et al., 2007; Sparrow, 2007) and develop their human resource management (HRM) practices in response to the needs of such contexts (Edwards, Colling, & Ferner, 2007; Goodeham et al., 1998; Innes & Morris, 1995; Jain, et al. 1998; Kostova & Roth, 2002). Because the nuances of institutional environments are different across host countries, the institutional structure of a particular country affects HRM practices of the MNCs that operate there. As a result, MNCs are always under pressure to develop effective HRM practices for their subsidiaries.

One group of institutional theorists (e.g., Maurice et al., 1980; Maurice et al., 1986) advocated what has come to be known as the “societal-effect” approach (referred to as SE approach, hereafter). According to this approach, “…organizational processes such as training, people at work, industrial relations, and remuneration should be considered as phenomena within a society, and that consequently the organization-environment distinction should be abandoned” (Mueller, 1994 :411). The SE approach is essentially consistent with the isomorphism argument that, an organization can be viewed as a societal entity integrated into the institutional and value structures constituting the culture of the same society. As Inzerilli (1981) succinctly put, an organization and the society, where the former is embedded, tend to reflect each other structurally.

The proponents of the SE approach precisely identified country specific institutions, such as national education and training system, system of work organization, and national industrial relations system, and systematically linked their impact to organizational HRM practices, such as recruitment, selection, training, remuneration, and industrial relations, (Lane, 1995; Mueller, 1994; Warner, 2000). However, although the impact of such societal institutions on different HRM practices was investigated in a few European countries, almost nothing has been done in the context of a developing country. Because the differences between the socio-economic institutions in the developed and the developing countries are vast and significant (Budhwar & Debrah, 2001; Verma et al., 1995; Warner, 2000), the SE approach needs to be studied in relation to its link to the organizational HRM practices of a developing country.
Consistent with this need, the present paper focuses on four multinational subsidiaries in Bangladesh and attempts to answer the following research questions.

1. What are the processes through which multinational subsidiaries select and develop their HRM practices in Bangladesh?

2. Do societal institutions in Bangladesh have any influence on the HRM practices of multinational subsidiaries there? If so, then, to what extent and in what ways do such institutions influence the selection and practices of HRM of these subsidiaries?

The potential benefits of such an investigation are threefold. First, an assessment of the effects of the SE approach on the HRM practices of foreign subsidiaries is certainly novel and timely in Bangladesh. For example, in order to invigorate its poor economy, Bangladesh has been able to create an industrial base for the participation of foreign subsidiaries, but no systematic study has explored the HRM practices of such subsidiaries. Second, our findings may help policy makers in Bangladesh determine whether—or not—additional legal requirements are needed to guide issues related to more effective HRM practices. Our findings might also alert the incumbent government, as well as other ambitious political parties, to initiate measures to curb unwelcome political meddling in the HRM practices of the existing foreign subsidiaries. Finally, our findings will provide an opportunity to compare the HRM practices of foreign subsidiaries in Bangladesh with those in other developed (such as France, Germany, and the UK) as well as less developed Asian countries (such as Malaysia, the Philippines, and Thailand). Such comparison may empirically reinforce—or negate—arguments about the effects of the SE approach as a potent theoretical explanation for variations in HRM practices across countries.

Literature Review

In the analysis of work, organization, and employment, the SE approach has become widely accepted as one form of institutional theory. Briefly, the S-E approach concentrates on actor-space interactions within a particular societal context, and considers the underlying constructive process in which actors operate and subsequently influence the work, organization and employment practices (Maurice et al., 1980; Maurice, 2000; Sellier, 2000). Due to close links that exist between an organization and the society in which it is embedded, the S-E approach places great importance on the interactions between various actors within such an intertwined arrangement (Almond, 1999). It argues for a concentration of interactions between educational, organizational, and industrial relations systems that are ‘concretely embodied’ in relation to the interrelated social construction of the workers, the employers, and the state (Maurice et al., 1986; Sellier, 2000). According to its proponents, three institutions—national education and training system, the system of work organization, and the national industrial relations system—are the main influencers in the development of organizational HRM practices.

The national education and training system influences the unequivocal acceptance of knowledge, skills and qualifications of employees in a particular country, and dictates how those will be used in the recruitment, selection, promotion, and pay-setting of employees (Lam, 1996; Maurice, et al., 1980). Besides segregating various occupational and professional domains, the education and training system also influences the career progression route of the employees, their locus of learning, and their incentives for developing different types of knowledge and skills. A comparison of Japanese, American, and German educational systems has demonstrated their varying impacts on employees’ skill development, career aspirations, and organizational training systems (Lam, 1996; Maurice et al., 1980). Handy (1987) pointed out that, with its traditional focus on experience, as opposed to qualifications, the UK management education system has been detrimental to the skill levels of British managers. In-so-far-as recruitment is concerned, such experience-driven tradition compels companies to place more emphasis on experience
rather than on qualifications. In the absence of a requirement for recognized professional qualifications and technical training, MNCs in Russia overlooked educational qualifications, thus preferring to recruit people with experience from other companies (Bjorkman & Ehrnrooth, 1999; Kostova & Roth, 2002). A survey of 2,253 manufacturing industries in Taiwan revealed that the government’s *laissez faire* policies encouraged employers to become reluctant to provide on-the-job training and, as a result, work experience in related jobs became the main criterion for employee selection (Lee, 1995). Turner and his associates found that the absence of a general apprenticeship and training system in the U.K. compelled workers to acquire skills which were fairly specific to one or two firms. Simultaneously, organizations in the U.K. also adopted internal promotion practices that would encourage workers to remain with the employer for a long term (Tregaskis et al., 2001).

Organization of work also influences employment practices in different national contexts. Maurice et al. (1986) explained the insinuation of social class system into educational institutions and the contribution of such insinuation toward the development of different class relations and organizational hierarchies in French workplaces. Barsoux and Lawrence (1994) reported the role of education system in determining and sustaining the French *cadre* system and its impact on entry, promotion, and career routes of managers. In Singapore, the gradual importance of tertiary education led to a shortage of clerical staff in the labour market and, as a result, organizations were restructuring to reflect changes in job responsibilities and chain of hierarchies (Beng & Chew, 1995). In addition to the usual clerical duties, clerical jobs were provided some degree of managerial responsibility which, in turn, increased the scope for promotions for incumbents to higher managerial positions. In Germany, the link between worker and technician careers, the communication between engineering and planning functions, and the subsequent impact of these institutional arrangements on the systems of work organizations were considered examples of such societal effects (Maurice et al., 1980). Sorge (1991) identified the correspondence between institutional structures of different societies on the one hand and organizational forms and HR practices on the other.

The institutional framework of national industrial relations (IR) system has an impact on organizational HRM practices, since the former provide the guidelines regarding whether the organizations should follow multi-employer bargaining strategies or a single employer bargaining strategy. After examining the HRM practices of foreign banks, Mueller (1998) reported that the institutionally strong German IR system legally imposed a uniform set of HRM practices that included recruitment and selection criteria, training and development opportunity, and collective bargaining arrangements. Similarly, provision for workers’ participation and involvement prevented multinationals from implementing their preferred HRM practices without the endorsement of the host country unions in different European countries. Legislative requirements have obliged Japanese companies operating in Germany to establish work councils (Lane, 1995). In contrast, in the absence of statutory provisions for employee representation in the U.K., Japanese companies developed company councils (Innes & Morris, 1995). Such company councils run counter to local institutional arrangements for employee representation. Similarly, almost three fourths of German subsidiaries in the U.K. never initiated any kind of work council or employee involvement practice that would not be possible in their own workplaces in Germany (Beaumont et al., 1990). In a study of HRM practices of U.S. multinationals in seven European countries, Cleveland et al. (2000) found that, U.S.-owned subsidiaries in Ireland and the U.K. were likely to experience considerably less institutional pressures from the national IR system for adopting the home country HRM practices. In contrast, U.S. subsidiaries in Germany and Scandinavia faced more pressure to adopt local norms and practices. But, there is also evidence that MNCs accommodate local norms and customs, while retaining a distinct national flavour in their HR practices. As a result, different HR patterns may appear in subsidiaries from different countries operating in the same country or context. In their study of the HR practices of U.S. MNCs in three locations, that is, Britain, Ireland, and Norway, Goodeham et al. (1998) revealed that U.S. subsidiaries bring their own nationally idiosyncratic repertoire of HRM practices, while at the same time they remain responsive to non-amenable local institutional conditions.
From the S-E perspective, MNCs evolve through a dynamic interaction of different institutional forces and, therefore, the HRM practices of the foreign multinationals should be shaped under the influence of both parent organizations and societal institutions of host country. Parent organizations exert pressure on the host country subsidiaries for adopting certain practices ignoring the institutional contexts of the host countries. But MNCs operating in different countries also face competing institutional arrangements that compel them to follow local HRM practices.

Methodology

Case Sites

Our objective to examine the influence of social institutions on the HRM practices of four MNCs in Bangladesh guided us to employ a qualitative research methodology. Research questions related to issues of how and why are more exploratory; hence, qualitative methodologies such as, case studies, historical analyses, and quasi-experiments are much better suited for such issues (Maxwell, 1996; Yin, 2003).

For identifying the causes, processes, and consequences of HRM issues, case studies are considered a better approach than any other qualitative research method (Whitefield & Strauss, 2000). Repeated interviews, coupled with a focus on a number of specific issues in a case study, allow researchers to assess the extent and reason for the adoption of HRM practices in greater depth (Whitefield & Strauss, 2000). Quintanilla (1998), for example, pointed out that organizational dynamics of change in MNCs can be better understood by case study research, which includes the historical and longitudinal information on the subsidiaries. This rationale led us to conduct in-depth case studies of four multinational subsidiaries in Bangladesh: A Pharma, G Pharma, N Pharma and B Chem. Detailed descriptions of these subsidiaries are provided in Table 1.

We utilized the ‘principle of matching sample’ strategy in the selection of cases (Miles & Huberman, 1994). This was necessary to maximize the variance of variables of particular interest and to control for the variance of other variables that might have influenced the HRM practices in those subsidiaries. Our approach was consistent with that of the proponents of the S-E approach (e.g., Maurice, et al., 1980; Maurice et al., 1986; Sorge & Maurice, 1990), who conducted studies with different European organizations that matched on technology, size, and other contingency variables. We included both historical and longitudinal evidence of the relationship between the HQ-subsidiaries and changes of HRM practices in the subsidiaries. The study was conducted over a period of nearly four years—from the initial pilot study to the final study and subsequent visits at the sites—and these opportunities, together, added a longitudinal dimension to our methodological approach.
### Description of Characteristics and HRM Orientation of the Multinational Subsidiaries

<table>
<thead>
<tr>
<th>Characteristics of the Subsidiaries</th>
<th>Pharmaceutical Subsidiaries in Bangladesh</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>N Pharma</td>
</tr>
<tr>
<td>Year of Establishment in Bangladesh</td>
<td>1969</td>
</tr>
<tr>
<td>Total Number of Employees</td>
<td>Unionized 380</td>
</tr>
<tr>
<td></td>
<td>Managerial 300</td>
</tr>
<tr>
<td>Total</td>
<td>680</td>
</tr>
<tr>
<td>Number of Trade Unions (Maximum 3)</td>
<td>One</td>
</tr>
<tr>
<td>Products adjustment</td>
<td>Product standardized</td>
</tr>
<tr>
<td>Cost Vs. Quality orientation</td>
<td>Emphasis on quality</td>
</tr>
<tr>
<td>Strategy determination</td>
<td>At HQ in Switzerland</td>
</tr>
<tr>
<td>Control and coordination</td>
<td>From the HQ</td>
</tr>
<tr>
<td>Structural orientation</td>
<td>Global - all the divisions report at specific product divisions at the HQ</td>
</tr>
<tr>
<td>HRM policy orientation</td>
<td>Ethnocentric</td>
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</table>
In each case, we considered the comparable sites, groups, and individuals with the same relevant characteristics or roles within a chosen multinational subsidiary. During our field study, we identified the head of the Human Resources Department (HRD), one managerial employee in the Quality Control/Assurance Department (QC/AD) [similar role and hierarchical position], one non-managerial employee (shop floor production employee), and two trade union leaders in each of the four subsidiaries as the key informants. The head of the HRD was selected due to his involvement with the subsidiary HRM practices and their possible links with the parent company for HR directions. Managerial employees in QC/AD were selected because of their position and work role in the production department, as well as their involvement with the shop floor production employee functions. Besides these key informants, interviews were also conducted with employees at various levels in different departments to obtain cross-sectional information on the HRM practices in the subsidiary. Participation observation method was used at times to collect empirical evidence.

In order to find out about the institutional arrangements of employment practices, information was collected from the four MNCs, as well as from various government departments: Directorate of Labour, Public Service Commission, and the National Wage Board. We also interviewed experts, such as the Labour Advisor of the Bangladesh Employers Federation, members on the National Labour Law Reform Committee, and leaders of the National Trade Union Federation. For additional insight, some prominent National Trade Union Federation leaders, leading HR consultants, and HR academics in a few leading universities were also interviewed. Table 2 provides number of actors we interviewed at different stages of our study. Relevant documents, archival records, direct observations, and participant observations in the case sites provided critical evidence to the presence—or absence—of societal influence on the HRM practices in the four multinational subsidiaries.

### Table 2
Number of Interviews with Participants in the Four Case Sites

<table>
<thead>
<tr>
<th>Organizations</th>
<th>Number of Interviews</th>
<th>Total interviews</th>
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<tbody>
<tr>
<td></td>
<td>HRM Managers</td>
<td>Other Managers</td>
</tr>
<tr>
<td>A Pharma</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>G Pharma</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>N Pharma</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>B Chem</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>3 government officials, 3 HR consultants, 3 retired employees, 4 academicians, 5 national trade union federation leaders</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Analysis

The nature of the data related to open-ended what, why, and how questions directed our analysis in a narrative form, thus providing a description of decision-making processes in the four subsidiaries. We chose ‘explanation building,’ which describes the process or sequence of events that connects the causes and effects in organizational research (Maxwell, 1996; Miles & Huberman, 1994; Yin, 2003), for analyzing and interpreting case data. All interview data were transcribed in narrative stories, and useful codes using the ‘meaning reduction approach’ (Kvale, 1996) were identified to isolate themes relevant to the research questions related to HRM-development process at the subsidiary level. After decoding all the
interviews, the narratives and codes were then reviewed, and the facts of different cases were compared and contrasted. We searched for patterns and connections in individual cases and finally explained them with interconnected evidence within and across the cases.

Data from multiple-case studies helped to develop a general explanation of cause-effect relationship of HRM practices in each of the individual cases. Prior conceptualization of societal institutions helped to explain the causal link between them and the organizational factors that contributed to the adoption of specific HRM practices. While explaining the prevalence of social phenomena or causal relationships among the organizational practices and societal institutions, we tried to use relevant codes to rearrange the evidence into categories that would facilitate the comparison of evidence within and between cases. These codes were created from the extensive field notes and were linked with the research questions and conceptual themes discussed in the theoretical propositions. A number of summary tables were developed to display the similarities and contrasts among the cases as a companion to explanation building from the findings. This tabular approach made ideas and analysis more visible, and allowed the findings to be grasped more easily and in a simple way (Maxwell, 1996).

Findings

Recruitment and Selection Practices

It was expected that an adoption of the recruitment and selection practices, as prescribed by the parent company, would be restricted by the social institutions of Bangladesh. The expectation was based on the understanding that the national institutional arrangements would override HQ-prescribed practices in the subsidiaries. But it so appeared that the MNCs hardly faced any problems in adopting the parent-prescribed or self-developed recruitment and selection practices. In the development of recruitment and selection practices, national educational and training systems appeared to lag far behind the knowledge and skills required by the industries (World Bank, 2000) and, therefore, played little or no role. None of the MNCs relied on the local educational qualifications and certifications; rather, they determined their own recruitment criteria to select competent employees. The managerial employees in N Pharma admitted that the university they attended had offered obsolete or irrelevant courses and used outdated laboratory equipment, which fell far short of industry requirements. The HR Director of A Pharma expressed his disappointment regarding educational qualifications:

We never relied on educational qualifications of the applicants. Once we were optimistic about MBA graduates. However, after observing their poor performance on the job, we became careful about their educational qualifications in the selection process. There are inconsistencies in degrees, course curriculum, and qualifications in different educational institutions, and are not related to the needs or requirements of the corporate world.

A relatively insignificant role of the national educational and training system in the recruitment and selection practices provided an alternative explanation of the effects of societal institutions in the MNCs of Bangladesh. It appeared that, in the absence of specific institutional arrangements, the multinationals could use job descriptions and job specifications prescribed by the parent company or by the subsidiary itself to determine their recruitment and selection criteria. The non-managerial employees in B Chem reported that, once candidates with a SSC (Secondary School Certificate) were selected for clerical positions, but now such posts require graduate qualifications with some working knowledge of computer programs. Likewise, A Pharma initially recruited candidates with a SSC in the production department, but now it requires science graduates. With respect to managerial employees, depending on prescriptions from the headquarters, different job specifications for similar positions were determined. Social actors such as professional associations, trade unions, or the relevant departments of the
government did not create any problems in the development of such recruitment practices. The emphasis of the MNCs—sometimes on behavioural traits, sometimes on foreign language proficiency, and sometimes on job experience—showed their ability to adopt their preferred recruitment and selection practices in Bangladesh.

We also observed political influence on the recruitment and selection practices of business organizations in Bangladesh. Political leaders and government officials regularly interfered with the recruitment and selection processes of the local private and public sector organizations. In a country riddled with high unemployment, where thousands of candidates vie for one vacant position, it is almost impossible to obtain any government job without having any close relative in a top position. Political leaders influenced the public sector recruitment process to put like-minded people in the bureaucracy so that their power could be perpetuated. The Ex-General Manager of B Chem explained:

In Bangladesh, MPs are sitting on the boards of all financial institutions. If you don’t honour their request in the recruitment and selection process, you won’t get any loan from the banks. If you don’t pay attention to the request of high police officials, you won’t get any help for security and other needs. If you avoid requests from officials of the Tax Department, you’ll be facing unnecessary tax harassment. If the government officials do not honour the requests or instructions of the political leaders, they will be harassed and punished in their workplaces.

Although the MNCs explicitly denied any political influence in their recruitment and selection practices, their selection method mediated this political influence in a subtle way. The ex-Deputy Managing Director of British American Tobacco (BAT), who had worked in two of the MNCs, disclosed and explained this mediation process:

During the Pakistani period, when multinationals started their business here, they always opted for employees with a good social background and influential references so that they could get help from the government officials and political leaders to expand their business. Even today, foreign developmental organizations openly ask for applicants who have connections with high officials in their recruitment advertisement. Most of the foreign firms have an advisory committee comprising of top retired government officials and political leaders who use their social network in getting things done for the multinationals.

In the case studies, employees viewed involvement of expatriates as a means to mediate political pressures on the recruitment and selection practices. Diplomats of developed countries played important roles in the national policy-making process, and multinationals used the network with their diplomats to counter political pressures on their management practices. In order to avert pressures from the top politicians of the country, top MNC officials maintain close links with their respective embassies. The General Secretary of A Pharma had this to say:

Our Managing Director is the President of the French-Bangladesh Chamber of Commerce and Industry. The French ambassador frequently visits our factory. If any political leader or government bureaucrat tries to influence or pressure our management, then it will be taken up with the top political party leadership in a straight way. Our management can take decisions boldly without considering any unwanted political or external influence.

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1 The role of government officials in the polling process is widely recognized in Bangladesh. Generally, they maintain relationships with the political leadership for good postings, promotions and other material benefits.
Initially, most of the multinationals employed expatriates to develop an institutionalized HRM system. This helped them separate the subsidiaries as ‘isolated islands’ within the turbulent environment and political unrest of Bangladesh, interviews revealed. With respect to political pressure, the ex-General Manager of A Pharma recalled:

We advertised for some electrical engineers in our production department. Following a careful scrutiny of the applications, we conducted all necessary tests and selected some suitable candidates. One morning, I received a phone call from the prime minister. He requested me to reconsider our selection and employ one of his candidates. It was so embarrassing for me! I avoided the circumstance by telling him that the Managing Director is directly involved in the selection process, and suggested that he contact the expatriate Managing Director directly. He never contacted the boss!

In the case studies, HR directors asserted that most of the local subsidiaries developed their recruitment and selection practices similar to those of their parent companies, or adopted those with slight modifications. The N Pharma management termed itself as a ‘high performance organisation’; B Chem considered itself as a ‘value adding organization’; and in A Pharma, emphasis was placed on the ‘development of accountable employees’, although each of these organizations had their mission and vision statements. The HR Director of N Pharma, with a previous background in foreign commercial banking, highlighted the distinctiveness of their HR policy and proudly said:

You can distinguish our employees from those of other local companies. We select the employees with right attitude, develop them carefully, and nurture their behaviour for long-term benefits. We use the HR manual provided by our HQ. If you see our employees along with others, you can distinguish them. Oh! They’re from N Pharma!

The lack of institutionalized HRM system in Bangladesh guided the MNCs to develop their own HRM style. With respect to distinctive management practices in Bangladeshi subsidiaries, the HR Director of B Chem explained:

Employees in the public sector organizations are not performing their duties properly. But you can see that everyone, including union leaders, working here is conscious about his or her own duties. Employees know that we don’t receive any subsidy from the government, and that they have to create the value for their own jobs. In the recruitment process, we try to identify the right people, train them well, and prepare them for something different from the local organizations. Our management styles are considered as progressive and superior to those in domestic organizations that want to mimic the multinational organizations.

Therefore, with respect to the development of systematic recruitment and selection practices in Bangladesh, multinationals are treated as role models by the domestic organizations. The manufacturing firms in the public sector have a commitment to create employment for social reasons. Their recruitment and selection activities are guided by the directives from the government, without much involvement of the enterprise management. Following the independence of Bangladesh in 1971, managerial employees in the public sector organizations were selected on the basis of political affiliation. With a strict hierarchy, local private organizations are usually centralized, and top management is authoritarian in character. Owners of private firms do not rely on or trust their salaried managers, and employ their relatives in key managerial positions. Employees in the private sector organizations are treated as personal servants, mostly underpaid and with very low esteem and empowerment. Contrary to local organizations, most of the multinationals in Bangladesh established their operations with government collaboration and kept depositing huge profits in the government exchequer. The profitability of multinational subsidiaries has
allowed them to determine their own recruitment practices without any intervention from the government. Because of their advantageous positions, multinationals have been able to ignore the ineffective HRM practices of the public sector. They have been able to develop their own HR practices by systematically transferring some of the parent company practices, or by following the lead of other parent companies, which have subsidiaries in Bangladesh.

Local private sector organizations are slowly adopting the systematic HRM practices of the multinational subsidiaries. The HR Director of N Pharma compared his own experience in a leading foreign bank with that of the ones working in the local private banks. The newly-established local private banks were considering the HRM practices of the multinationals as the benchmark for developing their own HRM practices. He also particularly mentioned the recent HRM developments in two leading domestic business groups, BEXIMCO and SQUARE, as evidence of dissemination of HRM practices from MNCs to the local organizations through the mobility of managerial staffs between the sectors. Therefore, the role of the multinationals in the local economy appears to have a substantial impact on the development of recruitment and selection practices in Bangladesh. Table 3 captures this section.

Training and Development Activities

The proponents of the S-E approach argued that the national education and training system coordinated by the government, industry, and educational institutions provides recognized occupational and professional qualifications (Maurice et al., 1986; Sorge & Warner, 1981; Tregaskis, 1998). Employees become interested in acquiring such qualifications for their own employment potential and career development opportunities. In Bangladesh, the national education and training system has no coordination with the government, employer associations, and professional/occupational organizations, and thus, fail to provide effective skills and qualifications for workplaces. Employers tend to deemphasize the formally certified skills; rather, they rely on on-the-job training for employee skill development (ILO, 1993; The World Bank, 2000). In the absence of recognizable skills, a combination of informal competencies, personal qualities, kinship links, social networks, common geographical origins, shared educational backgrounds and perceived supremacy of specific educational attainments became the key determining factors in career development and promotional opportunities of employees (Hoque, 1994; Jamil, 1994).

It seems that the absence of recognized training and qualifications had provided the MNCs with opportunities to develop their own training programs. Because training programs had no direct bearing on individual career development and other benefits, employees were not interested in training. However, multinational subsidiaries needed to upgrade employee competencies for competitive advantage, so they showed considerable initiative in training employees. Although employees were interested in developing some generic skills to increase their overall employability, employers could avoid the responsibility of imparting training, as training is voluntary for multinational subsidiaries. In fact, the unilateral discretion to select the training content minimizes MNCs’ risk of employee turnover and maximizes their returns from investments in training.

From the S-E perspective, the educational qualifications in Bangladesh created stratifications in workplaces and played a vital role in the development of training programs for different categories of employees. In the public sector, formal educational achievements are regarded as crucial indicators of competencies, and results at academic examinations stratify entry into and also limit movements in the organizational hierarchy. This academic stratification creates demarcation among different employee categories; that is, managers, officers, and staff within organizations. Only the graduate degree holders are recruited and promoted to the officer and managerial level positions (Public Service Commission Report, 2005, 2006). It is uncommon for non-managerial (staff) employees to be promoted to officer or managerial levels on the basis of experience or skill accumulation. Certainly, in the public sector,
whatever qualifications or training non-managerial employees acquire in their job, they will never be promoted to the officer level. In the private sector, except for a few rare opportunities in the MNCs, this type of stratification still existed. Non-managerial employees in B Chem indicated the hierarchical barrier for promotion from staff to officer grades and termed this as a discouraging factor in self-development and self-motivation. The vice-president of the employees’ union complained about this barrier between managerial and non-managerial positions. Although he had completed a bachelor’s degree after joining the organization, he was barred from such promotion. With a SSC, he joined B Chem as a commercial assistant, and then completed a Bachelor of Commerce degree and took other certificate courses within a few years. Nonetheless, he was prevented from being promoted to an officer. He cited the only exceptional case of the ex-general secretary of the union who succeeded in a promotion, due to his lobbying efforts and personal relations with the HR director. In A Pharma, a feeling of elitism among selected groups of fast-track employees at times created discontent among the general employees. For example, the welfare officer complained that stratification based on entry positions demoralizes employees and deters them from developing their own competencies. The general secretary of the collective bargaining agent (CBA) in A Pharma also mentioned the absence of training reward in terms of increments or promotions which, in turn, discouraged employees to undergo further training or skill acquisition. Non-managerial employees in N Pharma and G Pharma reported that the slim chance of promotion or career progression to a higher position diminishes their interest in any kind of training. Indeed, managerial employees in N Pharma revealed that, due to entry level stratification, non-managerial employees have no chance of being promoted to a managerial position. However, even when someone receives promotion to an officer level, he or she does not receive financial benefit due to loss of overtime allowances and other contingency benefits². Non-managerial employees are not at all interested in skill acquisition or career advancement within the limited scope of their personal developments.

Sometimes employee training and development opportunities were viewed as the outcome of inter-departmental power dominance and personal lobbying or links at the appropriate level, which could be seen as a shade of national political system within the organization. The regulatory affairs officer (RAO) in N Pharma disclosed that, employees holding the same educational degrees, but working in different departments, have different career routes and access to different training with vague career progression opportunities. In A Pharma, managerial employees in the welfare department commented, ‘If you don’t have any maternal uncle at the upper level, you won’t get required training for your career development’. The Quality Control Officer in N Pharma echoed a similar view, saying that the ‘departmental head determines our training needs and career progression plan, so it depends on my relation with the boss.’ Sometimes employees are trained—and even forced to work—in different departments without their consent, and they have to accept this for the sake of their job security. It is a common saying in Bangladesh that ‘private sector employees always put their jobs under the pillow in the night, and they need to check it before starting the job in the next morning’. The commercial officer in B Chem implicitly complained about his transfer from the re-engineering department to the finance department, although he was unwilling to accept this arrangement.

Similarly, the intra and inter-departmental politics also played an important role in selecting trainees and training programs. In N Pharma, pharmacy degree holders occupied most of the top positions and held decision-making power in the subsidiary’s national management committee. Among the technical employees, pharmacy degree holders enjoyed more promotion opportunities and also received most of the foreign training opportunities. The role of the HR department was also prominent and the HR Director represented the HR department at the board level. However, managerial employees were

² Employees are usually categorized into three types: non-managerial employees or staff, officers, and managers. Staffs usually get overtime benefit, washing allowance, shift allowance and other contingency benefits. Managerial employees enjoy a lot of fringe benefits, such as furnished accommodation, company cars, child education benefits, and so forth. Officer level employees receive comparatively fewer benefits than do the other two groups.
sceptical about the HR initiatives, and maintained that these were more cost conscious than development-oriented. The marketing director was also a pharmacy graduate and favoured pharmacy degree holders in that department when training was being offered. Managerial employees complained about these biased training opportunities and about the faster career progression of pharmacy graduates in different departments. In A Pharma, the quality control officer complained about the dominant role of the finance director and pointed to foreign training opportunities at the HQ for employees in that department. A welfare officer openly criticised the bias of the HR Director toward his departmental colleagues, who enjoyed more training facilities and promotion opportunities than their colleagues in other departments. The quality control officer said:

We’ve a training schedule in every department. Usually experts from foreign subsidiaries visit us to provide training in technical matters. We also have training arrangements in general issues such as leadership, team working, communication, reporting, etc. in the local training institutes. The opportunity for training depends on the capacity of the departmental boss. Some departments enjoyed more training opportunities than other departments due to individual influence and power of their bosses.

In G Pharma, most of the employees admitted the dominant power of the operations and technical director, whose blessings were a must for training opportunities abroad. The director was in-charge of all policy matters related to production and maintained direct communication with the regional office. Employees from a specific geographical area dominated the production sites and received more training opportunities because of their perceived collective power over the top level management. Managerial employees in B Chem revealed further insights into these HRD initiatives. The incumbent managing director was an MBA, and after his appointment, most of the top positions—traditionally occupied by engineers—were filled with MBAs. The role of the HR department is now well-recognized and the HR director holds a dominating position among the director level policy-makers. The dominance of the MBAs and their informal networking seemed to be a determinant in selecting trainees for various training programs.

**Pay and Performance Appraisal**

In pay and performance appraisal, multinational subsidiaries showed more consistency with host country institutional arrangements. The parent companies instructed subsidiaries to introduce performance related pay for all employees. However, the subsidiaries adopted only a few prescribed practices for the managerial employees. None of the multinational subsidiaries succeeded in introducing performance-based pay for the non-managerial, unionized employees, as prescribed by the HQ. The pay structures and total payment systems were still rooted in the host country pay practices. All four subsidiaries adopted separate pay structures for managerial and non-managerial employees, which corresponded to similar structures in local organizations. Their total pay also had similar elements, such as house allowance, company car, servant allowance, child education allowance, and so forth as those in local organizations. The degree of these components varied with the locus of the manager in the organizational hierarchy, educational stratification, and comparable social status with other competing organizations. Managerial employees in B Chem and N Pharma explained that the MNCs adopted the parent company prescriptions for their basic pay, but still conformed to the local norm for fringe benefits, which were the same for all equal hierarchical positions.

Institutional arrangements for pay settlements through collective bargaining at the plant level restricted the introduction of parent company pay practices for non-managerial employees. Industrial Relations Ordinance (1969) provided legal guidelines establishing pay bargaining opportunities for all non-managerial employees at the enterprise level. Accordingly, the pay structure, job grade, and total pay are determined at the union-management bargaining meetings. Collective bargaining agents usually
present modified pay demands every two to three years, and subsidiaries settle the pay issues with the trade unions to avoid industrial actions. Entry-level jobs are placed at the lowest grades and subsequent jobs are then placed in upper grades with a certain degree of experience in each grade. Pay grading, annual increments, bonuses, and other allowances are settled in the union-management bargaining meetings. In contrast, MNCs do not face any institutional barriers when they introduce their own pay grading for managerial employees. The managerial employees have no bargaining or consultation rights over pay issues. Management unilaterally reviews and decides managerial pay grading, annual increments, bonuses, and other allowances.

Although the MNCs implement their variable increment systems for the managerial employees, this practice is not necessarily accepted by all managerial employees. In N Pharma, some managers complained about the ‘KPA Bonus’ (bonus paid to extraordinary performers), describing this as the ‘foul play’ of managerial politics. In A Pharma, managerial employees considered the performance-related pay and promotion as a demonstration of extreme favouritism. Managerial employees in G Pharma perceived the variable pay increments as a tool for bringing localism or regionalism into the workplace. The HR director of B Chem implicitly agreed on complaints about nepotism and bias, but also indicated that the HQ inquiries about additional bonuses act as a check. The non-managerial employees were more suspicious of management decisions, and feared bias and unfair practices in the band-based pay structure. Trade union members defended the traditional arrangements—the seniority based increment system—as a safeguard for employees against unfair and unethical practices by the top management. The mistrust and resistance of the unionized non-managerial employees, as well as the institutionalized pay bargaining obligation with the CBAs, restricted the implementation of performance-based pay practices in the MNCs. CBA leaders referred to a number of job losses in managerial positions due to the misuse of institutional arrangements regarding individual performance-based pay and promotion.

Employees revealed that differentiated pay practices of managerial and non-managerial employees had roots in the stratification of the national educational and training system and social status (Pay Commission Report, 1973, 1977, 1996). Educational qualifications attached to specific jobs substantially influenced the pay grading of non-managerial employees. Among the unionized employees, production workers’ pay grades were always placed below those of the clerical or secretarial employees, because of the former’s educational requirements. Similarly, national industrial relations systems compelled the subsidiaries to negotiate with the trade unions and review the pay grades and allowances every two or three years.

When the MNCs faced rigid institutionally-determined pay practices for non-managerial employees, they tended to accept the need to follow the host country pay practices (Bluhm, 2003; Mueller, 1998). Although the MNCs were virtually free from specific institutional restrictions in the case of managerial pay practices, they adopted, with the exception of pay grading and performance-related pay, mostly local practices for avoiding conflict and dissatisfaction among managerial employees. However, although MNCs adopted the parent company pay grading and performance pay practices for the managerial employees, they linked fringe benefits to organizational hierarchies. This linking seemed consistent with the local organizations. Except for the managerial pay grading system, most of the pay practices in multinational subsidiaries seemed more consistent with host country societal arrangements.

In IR practices, the parent companies delegated all responsibilities to the subsidiaries, asking the latter to follow host country legal requirements. In a weak institutional environment, multinationals appeared to prefer the existing legal requirements of the host country instead of manipulating or bypassing them. They allowed the employees to form trade unions, but curtailed their bargaining power by isolating the plant level trade unions from mainstream political parties. Three of the multinational subsidiaries, A Pharma, G Pharma and B Chem, arranged CBA elections every two years, and negotiated the pay and benefits with the CBA leaders bi-annually. N Pharma had only one trade union, but it also
negotiated the pay and benefits bi-annually. Multinationals in Bangladesh faced some difficulties in introducing their preferred HR practices because of legal provisions for convincing the trade unions of the desirability of such practices. N Pharma management, for instance, failed to introduce individual performance related pay increments for the non-managerial unionized employees. The HR general manager of G Pharma termed the non-managerial pay issues as an ‘explosive matter’ and stated that he would not attempt to change anything without trade union consent. As long as he could manage the CBA leaders regarding pay issues, there would be no fear of any industrial unrest in the subsidiary.

Other than the legal provisions of trade union recognition and collective bargaining about pay and related issues, none of the multinationals showed any interest in other voluntary employee involvement schemes, such as formation of participation committees to encourage employee-involvement in management issues. In N Pharma and A Pharma, some CBA representatives were included in canteen and other welfare committees, but those voluntary initiatives seemed to be symbolic tactics to avoid employee complaints. While discussing union involvement in management, trade union leaders in B Chem complained that management never seemed to find it useful to invite trade union leaders or employees to give their opinion on different issues. Most of the trade union leaders found such voluntary committees useless, as those committee members did not have any authority to execute their own deliberations. Trade union leaders also expressed their concern about such voluntary initiatives, as these might be used by the management as an alternative to the CBA representations. The CBA leaders in B Chem explained the formation of a second trade union as a management effort to undermine the power of the existing union and to patronize the second one to ensure its success in CBA elections. But this management effort failed as employees realized the motive behind such initiatives.

The legal boundaries of the collective bargaining issues seemed to encourage the multinational subsidiaries to recognize trade unions and their involvement in industrial relations activities. In fact, the legal position of plant level trade union is comparatively weak in Bangladesh. Trade unions are legally excluded from involvement in management decisions, and their bargaining activities are restricted to only pay and benefit-related issues. Collective bargaining at the plant level bars the outsiders from being elected as CBA representatives or trade union leaders and restricts any influence on the bargaining process from the outside. The National Trade Union Federation (NTUF) leaders maintained that union leaders at the plant level suffered from lack of education. Our interview with the NTUF leaders revealed that, limited relevant information at their disposal, combined with a sense of job insecurity and their lack of bargaining skills, restricted the possibility of effective bargaining at the plant level. This restriction also underscored the need to involve the federation leaders in the plant level bargaining process to fight for the legal rights of the employees. But the legislative framework prevented them from any involvement in the plant level bargaining process. Although plant level trade unions in B Chem and A Pharma maintained their relationship with the national trade union federations, they received very little attention from them. In this respect, the vice-president of CBA in B Chem commented.

Our workers are scattered in different places. It’s very difficult for us to gather them for public demonstrations for various political parties. Compared to public sector organizations, our trade union membership is very limited. Therefore, national trade union federations showed very little—or no—interest in our capacity to help them organize greater political movements.

However, the centralized pay determination process in the public sector organizations compels trade union leaders to seek outside political links to increase pressures on the government. Plant level management does not enjoy any decision making authority in the pay and benefit issues in the public sector enterprises. However, trade union leaders interfered in routine management activities of these enterprises, and became engaged in corruption and malpractice to earn illegal money. Their interference in management practices are carried out with the support of the ruling political leaders, who extended
their support to gain political loyalty among the workers. Such political influences in the enterprise unions created inter-union and intra-union rivalry, thus undermining the relationships for harmonious IR in the public sector organizations.

To control the trade union activities, the multinational subsidiaries formed powerful employers’ associations and exerted substantial influence on the government, political parties, and national trade union federations. The coercive role of the foreign donor countries, multilateral organizations, and foreign aid agencies such as the World Bank, European Union, NAFTA and WTO have substantial influence on the IR policies of Bangladesh. These bodies also pressure the government to formulate pieces of employment legislation to improve working conditions and welfare activities of the employees (Daily Star, 2003).

Discussion and Conclusions

The purpose of this study was to investigate the applicability of the S-E approach in explaining the development of HRM practices in four MNCs in Bangladesh.

Our findings revealed substantial evidence of different degrees of social embeddedness of HRM practices in the selected MNCs. In recruitment and selection practices, the ineffectual role of the societal actors provided opportunities to the MNCs to implement parent company-prescribed or their own preferred practices. In the selection of training practices, the same social actors provided the MNCs with discretion to different degrees of volunteerism. As a result, the training practices of the MNCs were guided either by their parent company requirements or by their own opportunistic needs. Due to rigid legal provisions for pay bargaining with the trade unions, MNCs pursued similar practices of the local organizations in their own subsidiaries. In industrial relations and employee involvement practices, MNCs barely conformed to the legal requirements, and manipulated—or avoided—other best practices which they could pursue. In brief, based on the evidence we gleaned and presented, it could be reasonably concluded that the influence of the institutional context in Bangladesh guided the MNCs to either follow local practices, or to implement HQ-directed practices, or to invent their own practices.

Our findings have significant managerial implications. In the coming days, MNCs will be focusing on the “Bottom of Pyramid” (BoP) markets of the developing countries (Prahalad & Hammond, 2002). Therefore, they need to think about HRM practices of their subsidiaries in those countries. Our study revealed that MNCs could implement their parent company practices—or the global best practices—in their subsidiaries in Bangladesh without much resistance from the latter’s social institutions. Developing countries are yet to have any strong institutional base for building their country specific HRM model. Therefore, developing countries can consider MNCs as role models, and their governments could welcome them to implement new HRM ideology or practices for industrial development and economic growth. However, the MNCs also need to think about the political ramifications of their HRM practices in developing countries. Contrary to their experience in developed countries, they need to come to appreciate the reality that business and politics are highly interrelated in developing countries.

Another important issue worth pondering is the contrast between ‘bundle’ and ‘partial’ transfer of HRM practices. According to the international HRM literature, the transferability of HRM practices among the subsidiaries of the same parent company in different host countries is possible. However, the present study reveals that MNCs cannot transfer all of their parent company HRM practices to their subsidiaries in a developing country. The degree of transfer rather depends on the strength of social institutions of the host countries. In some areas of HRM practices, when MNCs face strong institutionalised or legal system, they need to adopt the host country practices in their subsidiaries. The idea of transferring the bundle of HRM practices is not possible in such cases. Again, it also appeared that
for different levels—or different groups of employees—MNCs cannot indiscriminately implement the HRM practices imported from the parent company or from other subsidiaries. For different groups or different categories of employees, the legal and institutional system would be different, and the degree of transfer will vary accordingly.

Some limitations of the study are worth noting here. First, we used a matching sample design to increase the reliability of our findings. But we could not rule out, entirely, the influence of other factors, such as industry, competition, capital intensity, technology, and customer segmentation. This raises an important question as to whether the findings could be applied to other industries and sectors. Future research comprising more sample of MNCs from different industries and sectors could account for the effect of such factors on the HRM practices of foreign subsidiaries. Second, the research questions guided the use of historical and longitudinal case studies of a limited number of organizations. However, case studies have their own limitations. Moreover, conclusions based on interviews and case studies are somewhat tentative (Chowdhury & Lang, 1996). However, a lot of individuals we covered in the study had the opportunity to negate and share social embeddedness and other peripheral constructs with us, who had considerable experience in the HRM practices of MNCS. Our study helped to develop an exploratory framework for explaining HRM practices in four multinational subsidiaries in Bangladesh. This exploration might help quantify the variables of interest for undertaking large sample empirical work in multinational subsidiaries of other developing counties. We hope that such attempts will be undertaken in future research.

References


