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## HUMAN RESOURCES MANAGEMENT (HRM) PRACTICES IN MULTINATIONAL COMPANIES WITH REFERENCE TO KNOWLEDGE TRANSFER

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### Abstract:

The paper supports the idea that organizations can institute various internal structures, policies and practices to overcome transfer barriers and facilitate the degree of knowledge transfer. The framework for future empirical research on the relations between human resource management (HRM) practices and knowledge transfer in multinational corporations (MNC) is discussed. The proposed model is empirically testable, includes a wider range of HRM practices and is not limited to one mode of foreign operations only.

### Introduction

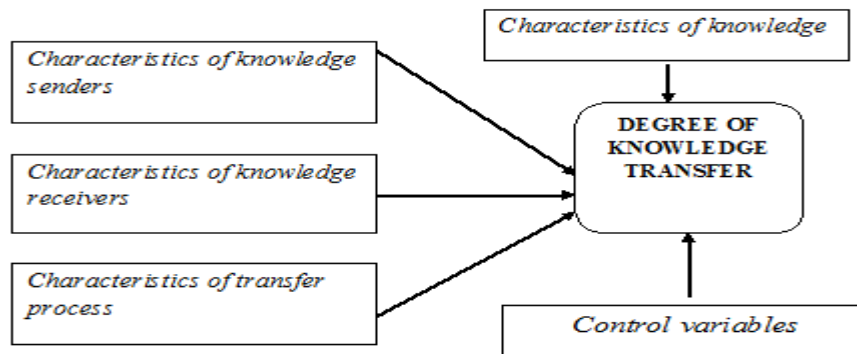
In organizational theory, knowledge transfer is the practical problem of transferring knowledge from one part of the organization to another. Like knowledge management, knowledge transfer seeks to organize, create, capture or distribute knowledge and ensure its availability for future users. It is considered to be more than just a communication problem. If it were merely that, then a memorandum, an e-mail or a meeting would accomplish the knowledge transfer. In the booming area of the research on knowledge management, a limited number of attempts has been made to empirically investigate how managerial practices may help to transfer knowledge within the multinational corporations (MNC). On the other hand, researchers working in the field of human resource management (HRM) more than a decade ago called for the transformation of the HRM system and identified the support to the process of organizational learning as the key strategic task facing the HRM function in many MNC today. Drawing on the theoretical insights of the resource based view, Lado and Wilson suggested that HRM practices “can contribute to sustained competitive advantage through facilitating the development of competencies that are firm specific, produce complex social relationships, and generate organizational

knowledge”. Clearly, two subjects are interrelated, but their link still misses some important aspects of the interpretation and empirical support. Existing studies on the relations between HRM practices and knowledge transfer have failed to reflect the complexity of HRM practices. The empirical work has largely focused on individual HRM practices. However, recent research on strategic HRM has been pointing at the importance of focusing on the systems of HRM practices “which simultaneously exploit the potential for complementarities or synergies among such practices and help to implement a firm’s competitive strategy”. Thus, more investigations are needed to understand how, why and in which combinations HRM practices matter for knowledge transfer. The lack of such studies in large part may be due to the absence of a clear conceptual, empirically testable model. To undertake this challenge the researcher combine the traditional HRM literature with the contemporary studies on knowledge transfer in MNC, and propose a framework for future empirical research on the impact of HRM practices on the degree of MNC knowledge transfer. By no means is the proposed model definitive. The researcher offers it as one of many ways to approach the complex link between HRM and knowledge transfer.

**MNC Knowledge Transfer: The Process and Its Determinants**

Eisenhardt and Santos (2002) in their review of knowledge-based view categorized the empirical research on that subject according to specific knowledge processes: sourcing, internal transfer, external transfer and integration. This analysis of MNC knowledge transfer process is related to the second stream – “internal transfer”, and includes studies, which explore “how knowledge transfer within an organization depends upon the characteristics of that knowledge, the sender, the recipient, and their mutual relationships” Building on these studies, it is identified that the following factors affecting MNC knowledge transfer: the nature/characteristics of knowledge; the characteristics of parties involved (senders and receivers); and the characteristics of the transfer process.

**Preliminary Conceptual Model:**



## **HRM Practices and Knowledge Transfer**

Knowledge has been an emerging topic within HRM literature. However, the literature has focused almost exclusively on testing, building and developing job related knowledge of individuals. Exploring how the resource based view has been applied to the theoretical and empirical research in the strategic HRM field Wright et al. noted:

“While HR literature tends to treat knowledge as an individual phenomenon, the strategy and organizational literature view it more broadly as organizationally shared, accessible, and transferable... The concept of knowledge brings together the fields of strategy and HR. But a good deal more work needs to be done to integrate these research streams. Strategy theory and research provides the basis for understanding the value of knowledge to the firm and highlights the need to manage it. The HR field has lacked such a perspective, but has provided more theory and research regarding how knowledge is generated, retained, and transferred among individuals comprising the firm”

Recently, several attempts of linking resource based view and HRM have been done in the international HRM literature. For example, Tsang examined the organizational knowledge transfer and learning aspects of international HRM and empirically evaluated HRM practices adopted by 12 Singapore MNC operating in China from knowledge-based and learning perspectives. He conducted 67 semi-structured interviews – 23 with managers in headquarters, 17 with expatriate managers in Singapore and 27 with Chinese managers. Tsang focused on the role of expatriates in replicating organizational routines in a foreign subsidiary, and concluded that effective expatriation in combination with inter-operation communication and training help in achieving knowledge diffusion within MNCs. This conclusion was later supported by other researchers focusing on expatriation and other HRM practices on the use of closely monitored training as the best way to assimilate knowledge transfer. The referred studies have provided with a number of significant conclusions. One of them is that there are some individual HRM practices that influence organizational learning and internal knowledge transfer. According to Write et al. such approach ignores “the basic conceptual model that HRM system, rather than an individual practices, impact employees and organizations”. Indeed, recent conceptual and empirical work within HRM field has argued for complementarities or synergies among individual HRM practices. This has been widely discussed by HRM researchers working on the impact of HRM on performance. It was concluded that the adoption and use of an internally consistent system of HRM practices are reflected in better firm performance and that “it should be possible to identify the best HRM practices, those whose adoption generally leads to valued firm-level outcomes”. The statement found a considerable empirical support.

## **Classifying HRM Practices**

Despite of the general agreement that the more coherent systems of the high performance HRM practices are used, the better the organizational outcomes, researchers vary substantially in what the exact HRM practices are and in which combinations they should be applied. In the remainder of the section, firstly, it is determined that HRM practices to be included in the model, and later discuss the possible ways to uncover their combinative structure.

What is consistent about the studies on HRM-performance link is their inconsistency with each other in terms of what HRM practices to name as High Performance Work Practices. Despite of the wide variety of HRM practices, it is still possible to identify those HRM practices that have attracted the most attention in terms of their influence on the organizational outcomes. Here they are, summarized under eight broad headings:

1. Organizational Planning: job analysis, job design, flexible working practices.
2. Staffing: selection tests, formal recruitment, placement procedures, expatriation.
3. Training and Development: orientation training for new employees, annual hours training, job-related skills training, executive and management development, career development.
4. Performance Appraisal: regular formal performance appraisal procedure, variety of sources of performance appraisal, usage of performance appraisal procedures for variety of purposes.
5. Compensation Management: performance-based compensation, incentive pay, benefits and services.
6. Employee Transfer: merit based promotion, lateral transfer.
7. Employee Relations Activities: information exchange, attitude surveys, complaint resolution procedures.
8. Employee Recognition Programs: suggestion systems, recognition awards.

Although the repeated efforts have been made, the reviewed studies on HRM performance have not agreed on the universal conceptual categorization of HRM practices. How can a researcher uncover the underlying structure of the HRM practices included in the proposed model? According to Wright et al. (2002) there are three approaches to classify the practices: conceptual analysis, factor analysis and cluster analysis. Conceptually it will be possible to identify HRM practices, which application enhances the degree of knowledge transfer by improving the capacity of knowledge senders to transfer knowledge, by improving the capacity of knowledge receivers to absorb knowledge and by promoting communication and exchange of information within a subsidiary and between the subsidiary and the rest of MNC (“Conceptual Analysis”). Alternatively, the groups of HRM practices may be identified through some form of factor or

principal component analysis (“Factor Analytic Solution”). Then it is possible to test how the identified group of HRM practices influences the mediating variables and ultimately the degree of knowledge transfer. The final alternative is to use a cluster analysis. The cluster solution is possible when there is “a single most effective HRM system and a large group of firms have adopted it”. The technique has been applied in several studies. Its proponents believe that when compared to factor analysis the cluster analysis does not assume linear relationships between practices, which may be crucial in some cases. Since the cluster technique is less useful when testing theoretical frameworks, it is not going to be discussed further. Instead the researcher elaborates a little bit more on the use of conceptual analysis and factor analytic solution for empirical testing of the proposed model.

### **Conceptual Analysis**

This option is for researchers wishing to theoretically identify the groups of HRM practices influencing the mediating variables of knowledge transfer. Below are some thoughts on how HRM practices may improve ability and motivation of knowledge senders to transfer knowledge, ability and motivation of knowledge receivers to absorb knowledge, and promote communication and exchange of information between senders and receivers.

The capacity of knowledge senders to transfer knowledge and the capacity of knowledge receivers to absorb knowledge have something in common: each of them describes employees’ individual behavior in relation to knowledge transfer and knowledge absorption respectively. The behavioral science literature suggests that both ability and motivation are equally important for individual behavior. Employees’ ability is more related to prior achievement, initial skills level, aptitudes, etc. “HRM practices influence employee skills through the acquisition and development of a firm’s human capital”. Thus, organizations, interested in achieving better individual ability, should employ those HRM practices that aim at acquiring, developing and retaining human capital. For example, staffing procedures aim to bring into vacant positions people with desired skills and knowledge, specified by some type of previously made job analysis. Training, when organized as a systematic process, helps organizational individuals to master their skills and influences their development. In addition, performance appraisal (or performance management) systems provide employees with feedback on their performance and competencies, and give direction for enhancing their competencies to meet the needs of the organization. An integrated part of most performance appraisal systems is also the establishment of objectives and targets for the self-development and training of employees. There is extensive evidence that investment in employees’ training enhances the human capital of the firm, generally leading to a positive relationship between employee training and organizational performance.

Knowledge transfer will be higher within certain organizational contexts due to promoting collaboration and exchanges of information within the organization. “The way in which a workplace is structured should affect organizational performance to the degree that skilled and motivated employees are directly involved in determining what work is performed and how this work gets accomplished”. Earlier the researcher distinguished between intra-organizational and inter-organizational communication (“Characteristics of the transfer process”). Intra-organizational communication takes place within a subsidiary and its extent depends on the existence of employees suggestion system, complaint resolution procedures, attitude surveys and alike. Inter-organizational communication occurs across all MNC units and is influenced by corporate-wide HRM practices such as cross-organizational labor management participation teams and corporate information sharing programs.

### **Factor Analysis:**

Another way to compose the independent variables (HRM practices) in the proposed model is to analyze them using factor analysis technique. In his influential study of the impact of “high performance work practices” on organizational turnover, productivity and corporate financial performance, Huselid factor-analyzed a number of HRM practices into two categories:

- ❖ Employee skills and organizational structures – “HRM practices that influence employee skills through the acquisition and development of a firm’s human capital”, formal job analysis, recruitment from within, selection procedures, incentives and profit sharing, training, regular attitude survey, quality of work life program, quality circles programs, a formal information sharing program, complaint resolution system.
- ❖ Employee motivation – “HRM practices that affect employee motivation by encouraging them to work both harder and smarter”, formal performance appraisal, performance based criteria for compensation, internal promotion system based on merit, number of qualified applicant per position on average.

### **Conclusion:**

It was mentioned many times that HRM literature could benefit from the greater level of interaction with other fields. One of the promising areas is the link between HRM and knowledge management within MNCs. In the conclusions of those few studies on that subject we often find calls for further research on “the learning capacities of organizational units”, “more explicit description of the motivation and cooperative choices of the organizational individuals”, “organizational mechanisms to facilitate knowledge transfer”, etc. To answer these calls I offer a conceptual, empirically testable model

that links the application of HRM practices with the degree of MNC knowledge transfer. The proposed model emphasizes the role of the mediating variables (determinants of knowledge transfer). It is a modest attempt to stimulate the empirical research on why, how and in which combinations HRM practices matter for knowledge transfer in MNCs.

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