

Human Resource Management Practices of Multinational Companies in Malaysia

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ABSTRACT

With the globalization of business, corporations have to deal with a more complex environment. One area that has received considerable attention in international management is human resource management (HRM). Some researchers argue that the HRM practices of multinational companies (MNCs) are likely to reflect the local conditions rather than be shaped by the corporation's country of origin. This suggests that the HRM practice of MNCs should not be too different from local firms. However, there is evidence that MNCs in Malaysia exhibit distinct differences from Malaysian firms in their HRM practice. This study compares the HRM practices of Malaysian firms and MNCs. The findings suggest that contingencies other than firm nationality are stronger predictors of HRM practice. We argue that the proposed relationship between MNCs and HRM practice is a bit simplistic and ignores the complex interaction of variables shaping HRM practice in MNCs.

ABSTRAK

Dengan proses globalisasi, syarikat-syarikat perlu menghadapi persekitaran yang lebih rumit. Satu bidang yang semakin menerima perhatian dalam pengurusan antarabangsa ialah pengurusan sumber manusia (PSM). Ada penyelidik yang berhujah bahawa amalan PSM syarikat multinasional lebih bercorak keadaan setempat daripada amalan di negara asal. Ini bererti amalan PSM syarikat multinasional sepatutnya tidak berapa berbeza daripada amalan syarikat-syarikat tempatan. Pada ketika yang sama, terdapat juga bukti yang menunjukkan amalan PSM syarikat multinasional di Malaysia menunjukkan ciri-ciri yang berbeza daripada ciri-ciri syarikat-syarikat Malaysia. Kajian ini membandingkan amalan PSM syarikat Malaysia dan syarikat multinasional. Penemuan kajian menunjukkan faktor-faktor selain daripada warganegara pemilik merupakan peramal yang lebih kuat terhadap amalan PSM. Penulis berpandangan hubungan yang mengaitkan amalan PSM dengan status sebagai syarikat multinasional, agak simplistik dan mengeneppikan hubungan yang kompleks di antara pembolehubah-pembolehubah yang mempengaruhi amalan PSM.

INTRODUCTION

Torrington (1994: 6) argues that international human resource management (IHRM) is essentially a more complex extension of HRM. He argues, "In many ways International HRM is simply HRM on a larger scale; the strategic considerations are more complex and the operational units more varied, needing co-ordination across more barriers." Torrington believes that HRM in multinational companies (MNCs) will remain largely a national activities bounded by a number of variables. Factors such as language, culture, economic and political system affect HRM practice in individual countries.

The extent MNCs develop HRM practices that are distinct from local firms have been examined by a number of researchers. A study of MNCs in Malaysia by Wan Aziz (1994) discovered that MNCs do more promotion from within and training compared to local firms. His finding suggests that the HRM practice of MNCs tend to be distinct in certain aspects. Erden (1988) study of management training program of MNCs and Turkish firms found that choices of in-house training program and cost of training program are significantly different between the two types of firms.

Some studies show that the overseas operation of MNCs' management practices are shaped by adaptation to local conditions and internal consistency (Doz, Bartlett & Prahalad 1981; Rosenzweig & Singh 1991). Rosenzweig and Nohria (1994) found from their study of US affiliates of foreign-based MNCs that affiliate HRM practices closely follow local practices, with differences limited to specific practices. Sim (1977) on her study of American, British, and Japanese subsidiaries in Malaysia found that organizational and personnel policies in those firms tended to be relatively independent from that of the parent company. Subsidiaries operating overseas have a great deal of autonomy in developing their HRM practice.

CONTINGENCIES OF HRM PRACTICE

Part of the reason for the conflicting finding on the impact of MNCs on HRM practice is the dependence on a bivariate examination of the relationship. These studies assume HRM practice to be the dependent variable and firm ownership nationality to be the independent variable. There is thus the need to subject the hypothesized relationship to a more rigorous examination by taking into consideration other variables. This will be the contribution of this study.

An issue not examined by Wan Aziz was the possible influence of other variables on HRM practice. MNCs tend to have more resources and are usually fairly large organizations. Variables such as size may well have a stronger relationship with HRM practice than owner nationality i.e. whether Malaysian owned or foreign owned.

The possibility of employment size affecting HRM practice cannot be discounted. Robbins (1990) points out that size is a moderating variable for

many organizational variables. Larger firms have been shown to exhibit greater HRM integration (Builer & Napier 1993; Ng & Dennis 1993).

The age of firms can also affect HRM practice. Milliman, Von Glinow and Nathan (1991) argue that HRM practice is affected by an organization's life cycle. The HRM practice of younger firms can be expected to be different from older ones.

Sectorial differences can also affect HRM practice. Schuler and Jackson (1992) argue that service organizations require employee role behaviors that are distinct from manufacturing organizations. The HRM practice conveys information on the role behavior needed by an organization from its employees. Different HRM practices define different role information which in turn defines different role behaviors. Differences in HRM practices between the manufacturing and service sector have also been noted by Marginson, Edwards, Marin, Purcell, and Sisson (1988: 88) and Hiltrop, Despres and Sparrow (1995).

RESEARCH PROBLEM

The discussion above suggests that the variables affecting HRM practice are numerous. Thus, only an examination that controls for the influences of these variables can do justice to any discussion of the relationship between MNCs and HRM practice. The purpose of this paper is to examine the HRM practice of Malaysian and MNCs operating in Malaysia in order to determine whether owner nationality is indeed a factor that explains differences in HRM practice. It will do this by also taking into consideration other variables.

METHODOLOGY

RESEARCH INSTRUMENT

A questionnaire seeking information on respondent firms' HRM practice was prepared. The variables measuring HRM practice is based on Schuler's (1989) Human Resource Management Practice Menu. The menu addresses six areas of HRM practice which are planning, staffing, performance appraisal, remuneration policy, training and development and labor-management relation. A few other items identified to be relevant from other HRM studies were also included (Brewster & Larsen 1992; Gunigle & Shivanath 1989; Schuler & Jackson 1989). Respondents were asked to indicate whether these HRM practices were adopted in their organizations (see Appendix for questionnaire items).

SAMPLE

Data collection for this study was performed using mailed questionnaire. Forty-one items were developed to assess HRM practice. Most of these questions

required responses in the form of “Yes” or “No” on the adoption of a practice or otherwise. Only firms with at least 50 full-time employees in the electronics, food, textile, plastic, financial services and hotel industry were chosen. A total of 912 firms were involved in this study. Firms where more than 50% of the equity is owned by non-Malaysians are classified as foreign owned. Questionnaires were sent to the human resource managers in these firms.

A total of 171 usable responses were received. Of this, 112 (65.5%) firms are from the manufacturing sector and 59 (34.5%) are from the service sector. This also means that the overall response rate is 18.8%. The response rate from manufacturing firms is 20.5% and among service firms 16.1%.

DATA ANALYSIS

The data analysis was done in two stages. The first was an examination of the relationship between the adoption of HRM practice and the owner nationality of the respondent firms. The second stage was the examination the relationship between HRM practice found to have a statistically significant association with firm owner nationality using logistic regression. This is because logistic regression is capable of analysis using categorical independent variables. Firm age (AGE), employment size (ESZ), sector (SCTR) i.e. whether the firms is a service or manufacturing, and firm nationality (NTNL) were used as independent variables. Since logistic regression can only accept two-category dependent variable, the item on job design focus was not included in this examination.

FINDINGS

Six HRM practices were found to be statistically significant at the .05 level in differentiating the HRM practice of Malaysian and foreign firms (Table 1). These are:

1. A higher percentage of foreign firms were found to have a centralized performance appraisal system. Only 1 foreign respondent (1.5%) responded that the units or departments in its organization develop their own appraisal system compared to 10 (10.6%) Malaysian firms.

2. The use of IQ test as a selection tool in the recruitment of non-managerial employees is also more extensive among foreign firms. IQ test is used by 34 (51.5%) foreign firms compared to 23 (22.5%) Malaysia firms.

3. Foreign firms were also found to be more likely to use automation as a solution in facing the shortage of non-managerial employees. Increased automation is used as a solution by 47 (71.2%) foreign firms compared to 49 (48%) Malaysian firms.

4. The use of performance appraisal result for training planning is more extensive among Malaysian firms. This practice is present in 65 (67%) Malaysian firms. Only 33(55.8%) foreign firms have this practice.

5. Differences in job design focus were also found between Malaysian and foreign firms. About half of the Malaysian firms consider task simplification as the main focus of their job design. This contrast with only 23 (38.3%) foreign firms. In 10 (16.7%) foreign firms job design was determined by the technology used. This contrast with only 2 (2.1%) Malaysian firms.

6. Training was found to be more prevalent among foreign firms. About 98% of foreign firms have training programs compared with 86.3% of Malaysian firms.

TABLE 1. Association between HRM practice and firm owner nationality

	Firm Nationality		P
	Malaysian %	Foreign %	
1. Use of centralized performance appraisal	89.4	98.5	.026
2. Use of IQ test for non-managerial recruitment	22.5	51.5	.000
3. Automate to overcome shortage of non-managerial employees	48.0	71.2	.003
4. Use performance appraisal result for training planning	67.0	55.8	.038
5. Have training program	86.3	98.0	.018
6. Job design focus			.014
Task simplification	49.5	38.3	
Task enrichment	24.7	23.3	
Determined by technology	2.1	16.7	
Cost minimization	16.5	18.3	
Try new management Techniques	7.2	3.3	

A closer examination of the six HRM practices listed above show that the practical significance of these differences is not that distinct. This is especially the case in (1), (4) and (6). The percentage difference between Malaysian and foreign firms in these practices is only about 10%.

The result of the logistic regression shows that firm nationality (NTNL) is significant for three of the HRM practices (see Table 2). These are a) the presence of training, b) increase use of automation as a solution in facing labor shortage, and c) the use of IQ test as a selection tool for non-managerial employees. However, the R coefficient for practices a) the presence of training and b) the use of automation in facing labor shortage is fairly small. In fact, SCTR (i.e. whether a firm is in the manufacturing or service sector) is also significant for these two variables. The absolute

values of the R coefficient for these two HRM practices are also bigger for the independent variable SCTR than NTNL. This shows that SCTR has a bigger partial contribution to the model than firm nationality.

TABLE 2. R Coefficient of Logistic Regression Equation

	PCC(%)*	AGE	ESZ	NTNL	SCTR
1. Use centralized performance appraisal	93.4	-.246 (.011)	.224 (.010)	.116 (.083)	.101 (.09)
2. Automate to overcome shortage of non-managerial employees	69.3	.128 (.018)	.000 (.855)	.107 (.034)	-.213 (.001)
3. Use IQ test in recruitment of non-managerial employees	69.8	.000 (.343)	.000 (.269)	.223 (.001)	.000 (.726)
4. Use performance appraisal result for training planning	61.4	.000 (.837)	.000 (.588)	.000 (.218)	.179 (.004)
5. Have training program	91.1	.000 (.416)	.000 (.228)	.142 (.048)	.158 (.037)

Note. Figures in bracket are significance levels. *PCC = Percent correct classification by logistic regression equation when compared with actual data.

The analysis also shows that AGE and ESZ are significant predictors of the use of a centralized performance appraisal system. SCTR is significant in predicting the use of performance appraisal result for training planning.

The above finding indicates that the differences in HRM practice between Malaysian and foreign practices are actually very limited. Ownership nationality explains the adoption of only three HRM practices. Even then the R coefficient is too small to be considered of practical significance. Other contingencies have a bigger role in predicting the differences in HRM practice between Malaysian firms and MNCs.

CONCLUSION

The finding from the above data highlights the limited role of owner nationality in predicting HRM practice. Instead other variables such as employment size and industry sector are stronger predictors of HRM practice. The view that firm ownership is the main variable affecting HRM practice is perhaps an oversimplification.

The Malaysian scenario is particularly complex given the multi-ethnic nature of its society. Studies have shown that there are differences in values and approaches to management practice among the different ethnic groups in Malaysia. As such, it is hard to define a dominant Malaysian management style (Md. Zabid, Anantharaman & Raveendran 1997; Zahari 1983). The same probably holds true in HRM.

The diversity of nationality among the foreign companies operating in Malaysia also makes it unlikely that the HRM practice of MNCs in Malaysia can be classified as though they are a homogenous group with a high degree of similarity in HRM practice. For instance, differences in HRM practice between American and Japanese firms are well documented.

The organizational theory literature also provides us with some insight into the variables affecting management practice in MNCs. Rosenzweig and Singh (1991) elaborated on the various variables affecting decisions such as the management process and organizational structure of MNCs. They argued that the legal provisions in the host country could cause the management practice of MNCs in a country to be more similar to the host country. They are also of the view that when the MNC subsidiary is an acquired operation (instead of a new startup) its management practice is more likely to be similar to the host country. Likewise, when an MNC's operation is dependent on competition within the country but not with other countries, the MNC in the country is more likely to be similar to firms in the host country.

The finding of this study and the preceding discussion show that the HRM practice of a firm is shaped by more than just its status as an MNC. The variables affecting the HRM practice of MNCs are numerous and each exerts an influence in varying degrees. Any understanding of the HRM practice of an MNC must take into consideration these variables.

APPENDIX

HRM Practices Measured in Questionnaire

1. HRM planning and job environment:
 - a. HRM planning time frame.
 - b. Policy on employee participation.
 - c. Use of job description.
 - d. Focus of job description.
 - e. Focus of job design.
2. Staffing:
 - a. Policy on lifetime employment.
 - b. Nature of career path.
 - c. Recruitment criteria.
 - d. Policy on promotion from within.

- e. Selection criteria.
 - f. Steps taken in facing labor shortage.
3. Performance appraisal.
- a. Presence of performance appraisal.
 - b. Coverage of performance appraisal.
 - All or some employees?
 - Centralized appraisal practice or at discretion of individual manager?
 - c. Basis of performance measurement (i.e., individual vs. group).
 - d. Focus of appraisal process.
 - e. Basis of performance (group vs. individual).
 - f. Use of appraisal result.
 - g. Time frame for appraisal.
5. Training and development:
- a. Presence of training.
 - b. Training hour per employee.
 - c. Training budget.
 - d. Source of information for training need assessment.
6. Labor-management relation:
- a. Presence of union.
 - b. Percentage of employee unionized.
 - c. Incidences of union industrial action.
7. Compensation:
- a. Relative salary level.
 - b. Benefits, salary/wages and incentive as a percentage total labor cost.

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