MNCs as Diffusers of Best Practices in HRM/LR in Developing Countries

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Abstract
[Excerpt] The purpose of this chapter is to explore the role of the multinational company (MNC) as a “diffuser” of best practices in human resource management and labor relations (HRM/LR) to domestic firms in developing countries. It is clear that in their search to find ways to compete globally and achieve rapid economic growth, many developing countries have increasingly sought foreign direct investment (FDI) (Chapter 2 in this volume). To be outside the global learning loop is a risk that local firms in developing countries can ill afford, especially in a period marked by fast-changing technology and markets. Hence, one potentially important benefit from FDI is the exposure gained by domestic firms in developing countries to alternative forms of management. Indeed, several authors have argued that MNCs play a critical role in the diffusion of best practices as such. At the center of the globalization process, MNCs can be viewed, therefore, as important transmitters of product, process, and organizational innovation to developing countries (Frenkel, 2000). The extent to which this transmission takes place is also relevant in the context of the global convergence debates in the literature. As reported by Brewster and Tregaskis in the preceding chapter, there is reason to doubt that there is emerging convergence of HRM/LR practices across borders, at least with respect to contingent employment practices across Europe.

Keywords
multinational companies, diffusers, developing countries, human resource management

Disciplines
Human Resources Management | International Business | Labor Relations

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MNCs as Diffusers of Best Practices in HRM/LR in Developing Countries

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The purpose of this chapter is to explore the role of the multinational company (MNC) as a "diffuser" of best practices in human resource management and labor relations (HRM/LR) to domestic firms in developing countries. It is clear that in their search to find ways to compete globally and achieve rapid economic growth, many developing countries have increasingly sought foreign direct investment (FDI) (Chapter 2 in this volume). To be outside the global learning loop is a risk that local firms in developing countries can ill afford, especially in a period marked by fast-changing technology and markets. Hence, one potentially important benefit from FDI is the exposure gained by domestic firms in developing countries to alternative forms of management. Indeed, several authors have argued that MNCs play a critical role in the diffusion of best practices as such. At the center of the globalization process, MNCs can be viewed, therefore, as important transmitters of product, process, and organizational innovation to developing countries (Frenkel, 2000). The extent to which this transmission takes place is also relevant in the context of the global convergence debates in the literature. As reported by Brewster and Tregaskis in the preceding chapter, there is reason to doubt that there is emerging convergence of HRM/LR practices across borders, at least with respect to contingent employment practices across Europe.

There appear to be considerable optimism and some degree of consensus (especially in the business press), nonetheless, about the important role that MNCs play in the diffusion of organizational best practices in developing countries (Posthuma, 1994). The primary argument underlying this positive assessment of MNCs as important diffusers is that MNCs, with their superior knowledge, bring with them the latest in organizational (production and HRM/LR) innovations and that these innovations set a new standard in developing countries. For instance, Hoffman (1989: 89) argues that the nature of MNC organizational innovations, given the resource constraints in finances and skills found in developing countries, are an important potential source of industrial practice and productivity upgrading. Hoffman suggests, furthermore, that diffusion of such practices in developing countries occurs fairly easily, given that organizational innovations are not scale-, product-, or function-specific. It has also been argued that there is little or no mystery behind how these practices work. Consequently, domestic firms can easily copy MNC practices to which they are exposed, and management consulting firms can readily advise domestic firms on how to implement them. The key assumption underlying this discourse (perhaps a "Western ethnocentric" one) is that because MNCs are from the advanced world, they will have developed best practices that firms in developing countries through replication could benefit from, having not otherwise developed such practices themselves.

It is important to note, however, that we found no systematic research focusing specifically on MNCs as diffusers of best practices in HRM/LR to developing countries, and there may be good reason for this. First, MNCs tend to specialize in high-end economic activities (e.g., Nike in marketing, design, and logistics). Thus, their HRM/LR practices are unlikely to be relevant to low-cost, low-end producers in developing countries. Second, MNCs, mainly based in advanced countries, face very different labor markets and IR systems from those in developing countries, and what is relevant in advanced countries may not be relevant in the developing...
country setting. Hence, it is possible that developing country firms may have developed local best practices in HRM/LR, which are more relevant to them and, in turn, superior to MNC practices pursued in that locale. Third, MNCs often decentralize HRM/LR, leaving it to local managers to decide best practices. Further, given low labor costs (as a percentage of total costs) in developing countries, HRM/LR practices may not be considered important to competitiveness. Although the answer to the question of whether MNCs are important diffusers or not is likely, therefore, to be locale-dependent, the identification of factors facilitating and inhibiting diffusion is, nonetheless, of general relevance.

The purpose of this chapter is to examine the extent to which the HRM/LR best practices of MNCs do in fact diffuse to domestic firms and to explore the processes, preconditions, and factors that increase or limit any such diffusion. Given the current lack of scientific evidence, our analysis is primarily inductive, exploratory, and preliminary in nature. It is conceived as a thought stimulator, a starting point for further discussion, research, and analysis. In the following section we first clarify the concepts of best practice in HRM/LR and diffusion, draw on the literature to generate some ideas and to conjecture about the diffusion of best practices in HRM/LR by MNCs, and describe the methodology and data on which this analysis is largely based. In the second section, we provide brief details of the industries studied and our findings about workplace practices in leading firms in each industry. If diffusion has occurred, we expect to find it among leading firms. If diffusion has not occurred, we expect to find diverse HRM/LR practices among leading firms. In the third section, we discuss our findings in relation to our proposition of diffusion and factors associated with it. We conclude by arguing that there is a great degree of variation by country and industry in terms of the role of MNCs as diffusers and that the concept of “best practice” needs to be examined in terms of local effectiveness. Lastly, we advance a series of propositions about the salient factors influencing the diffusion of HRM/LR best practices.

LITERATURE AND METHODOLOGY

Defining Best Practices and Diffusion

Given the absence of any existing literature that specifically addresses the question at hand, we first need to define both best practice in HRM/LR and diffusion. So-called best practice has been used in the literature to denote either a single HRM/LR practice or a “bundle” or system of different HRM/LR practices. In the case of diffusion of a single practice, domestic companies adopt one or two successful practices without adopting entire HRM/LR bundles deployed by MNCs. Pil and MacDuffie (1999) suggest, for example, that the extent of diffusion by multinationals varies considerably depending on the type of practice, whereby some practices are diffused more than others. On the other hand, there are examples of domestic companies adopting entire bundles of HRM/LR practices. Thus, if one examines diffusion based on bundles of practices instead of single practices, the test of diffusion is set rather high.

There is a tendency in the management literature, furthermore, to take a universalistic view of certain bundles of best practices. For example, there is the notion of best practices in automotive production derived from the “Toyota model,” which is shorthand for a collection of managerial, technological, organizational, and institutional features associated with Japanese manufacturing (claimed to have set the standard for the worldwide automobile industry). Similarly, there is an emerging universalistic view of the applicability of a set of best practices in HRM/LR. One, for example, combines flexible compensation linked to productivity and skill acquisition, work organization with self-empowered teams, human resource development, flexible employment practices, strong organizational cultures, and collaborative labor-management relations, all of which are seen as applicable across many industries in different geographic contexts. This universalistic view tends to predominate in the international HRM/LR literature and is one of the underpinnings of the convergence argument (Lee and Kuruvilla, 2000). Indeed, writers such as Hoffman (1989) advocate the diffusion of organizational practices from developed to developing countries irrespective of the fact that the practices themselves
are based on different cost structures and industrial relations (IR) systems. We do not, however, embrace such a universalistic view of what constitutes best practice or its central presumption that MNC HRM/LR practices will be diffused widely. We assume, instead, that there will be different sets of best practices in HRM/LR in different contexts because best practice can arise out of multiple sources, not just from MNCs.

With respect to diffusion, there are several different ways in which this concept has been used in the literature. On one hand, as developed by the authors in Chapters 6, 7, and 8, one can think in terms of vertical diffusion within given MNCs from and to both headquarters and subsidiaries. On the other hand, one can think in terms of horizontal diffusion, in which best practices are diffused across firms within the same industry or commodity chain (see Chapter 3) or diffused across industries to firms whose managers have been exposed to best practices in other industries. We focus, herein, specifically on the horizontal diffusion of HRM/LR practices within specific industries and within two developing countries.

Horizontal diffusion of HRM/LR practices, furthermore, can be more narrowly or broadly conceived, both in regard to both the application of HRM/LR practices and the range of industries across which such practices are diffused. With respect to the application of practices, diffusion may encompass more broadly both upper-level managers and lower-level production and service employees or more narrowly encompass either category of employee (or even some subset of either). Much of the international HRM literature focuses heavily on the study of managers, among which one might observe extensive diffusion of practices given the existence of a more global or regional labor market for that category of employees (Lee and Kuruvilla, 2000). With respect to the range of industries, horizontal diffusion may more broadly encompass diffusion across a number of industries within a commodity chain or across unrelated industries or more narrowly encompass diffusion within selected industries.

Figure 9.1 illustrates in a highly simplified way this range of possibilities of horizontal diffusion of best practices in HRM/LR. Along the vertical axis, diffusion can range from specific, individual practices to bundled sets of practices. Along the horizontal line, diffusion can range from one that is fairly narrow to one that is fairly broad with respect to the application of HRM/LR practices to categories of employees and to industries. Our focus is on quadrant 3, as we examine the horizontal diffusion of bundled HRM/LR practices but with a fairly narrow focus on the diffusion of practices to only lower-level production and service workers within selected industries. Our test for whether horizontal diffusion of best practices in HRM/LR has taken place in developing countries, therefore, is relatively high but a realistic one given our fairly narrow focus on diffusion of practices to only lower-level workers within single industries.

In addition to examining the extent of horizontal diffusion as previously defined, we explore what appear to be the primary processes of, and preconditions for, diffusion, as well as salient factors that facilitate or inhibit diffusion. As noted earlier, we have been unable to find published studies (at least written in English) regarding the diffusion of MNC HRM/LR practices between advanced and developing nations. Given that the available literature germane to our inquiry is limited and in the interests of conserving space, we provide a brief summary of the literature in Tables 9.1, 9.2. We distinguish between the process of diffusion, preconditions for diffusion, and factors facilitating and inhibiting diffusion. In Table 9.1, we include our expectations regarding important variables that affect horizontal diffusion. In Table 9.2, we highlight the various facilitators and inhibitors to such diffusion. Taken together, these tables provide background material used for suggesting several hypotheses explored in this chapter and testable in future research.
Methodology

The case studies examined herein are part of a larger research project designed to analyze national, industry-level, and workplace-level changes in HRM/LR resulting from the globalization process (see Frenkel and Royal, 1997; Kuruvilla, 1997). The results presented are preliminary to a more detailed analysis of workplace changes being conducted in the larger, ongoing project. The industries covered include white goods (i.e., domestic appliances), pharmaceuticals, banking, and electronics and information technology (IT) in India and banking and electronics in Malaysia. The focus of the present analysis is on a bundle of several HRM/LR practices: work organization, compensation, employment flexibility, training and skills development, and labor-management relations. In addition to examining these practices, we inquired about the perceived stimuli for any changes in HRM/LR practices and whether benchmarking was used, in particular, benchmarking against MNCs. We believe that it is reasonable to assume that most human resource (HR) managers know the best practices in their own industries, albeit we recognize that there may be a tendency by managers to present their own company practices as being the best in their industries. As such, we rely on perceptions of HR managers to define both what bundles of HRM/LR practices constitute best practices and, thus, whether these best practices have been diffused in their given industries.
<table>
<thead>
<tr>
<th>Research Focus</th>
<th>Previous Research</th>
<th>Authors' Conjectures</th>
</tr>
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<tbody>
<tr>
<td>The process by which horizontal diffusion occurs between developed and developing economies through MNCs.</td>
<td>Mostly limited to developed economies and to selected industries (e.g., autos). Evidence suggests that increased competition in the auto industry led to the adoption of Japanese—style practices via benchmarking. Representative work includes Kenney and Florida (1993), Womack, Jones, and Roos (1990), Elger and Smith (1994), Kurevilla (1995).</td>
<td>a. MNCs could affect the rules governing IR through pressure on national governments. b. MNCs introduce IR practices into their subsidiaries, and these spill over to contractors, suppliers, and possibly customers. c. If MNC practices are seen to be competitive, local firms will benchmark and adopt. d. Advice of global consulting firms that advocate best practices. e. Organizations of employers share information about best practices. f. Academic research.</td>
</tr>
<tr>
<td>Preconditions for horizontal diffusion to take place.</td>
<td>Length of time MNCs operate in developing nations is key (Bangert and Poor, 1993).</td>
<td>a. There must be a significant degree of FDI. b. The larger the number of MNCs in a given industry, the greater the potential for horizontal diffusion. c. Diffusion of MNC practices will be greater in virgin territory (economies that have been previously closed to foreign presence or under a completely different economic system; India before 1990 and China before 1978).</td>
</tr>
<tr>
<td>Inhibitors and facilitators</td>
<td>Diffusion (vertical) is not universal and influenced by a number of different conditions such as country of origin, product market factors, degree of production integration in an MNC, MNC structure (Edwards, Rees, and Collier, 1999). There are many barriers to transfer success such as legal, institutional, and being out of sync with local culture (Florkowski and Nash, 1993). Nature of product and labor markets, and selective diffusion, only of some practices. Representative works include Schuler, Dowling, and DeCieri (1993), DeCieri and Dowling (1999), Frenkel and Royal (1997), Taylor, Beechler, and Napier (1996), Carr (1994), Haddock and South (1994), Edwards, Fener, and Sisson (1996), Beechler and Young (1994), Hamon, Huang, and Jaw (1995).</td>
<td>See Table 9.2</td>
</tr>
</tbody>
</table>
Our analysis is based on interviews and documents collected in two or three leading firms in selected industries in India and Malaysia. We chose India and Malaysia because of their varying experience with “globalization,” expecting to find some differences in the impact of MNCs as diffusers of best practices across these two nations. India is a more recent “globalizer,” having liberalized its economy in 1991. In contrast, Malaysia has had a relatively open economy since the late 1970s. The industries studied include those that have been heavily affected by globalization, in terms of either increased product market competition or the recent entry of major MNCs. This is the case for the consumer goods sector in India and the electronics sector in Malaysia, as well as industries that are or have been relatively more sheltered, such as the banking industry in both countries.

Given the exploratory nature of our inquiry, we cast a wide net in an effort to capture any apparent variation in the diffusion of best practices in HRM/LR. Evidence that there is a tendency for HRM/LR practices deployed in lead firms in an industry to converge

<table>
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<tr>
<th>Facilitators</th>
<th>Inhibitors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product markets</strong></td>
<td>Domestic.</td>
</tr>
<tr>
<td>International.</td>
<td>Stable.</td>
</tr>
<tr>
<td>Rapidly changing.</td>
<td>Weak.</td>
</tr>
<tr>
<td>Strong integration across borders</td>
<td>Price.</td>
</tr>
<tr>
<td>Basis of competition -- quality/innovation but might include price.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Local labor markets and IR institutions</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tight.</td>
<td>Loose.</td>
</tr>
<tr>
<td>Weakly regulated (or regulated to encourage diffusion).</td>
<td>Strongly regulated (adverse affect on diffusion).</td>
</tr>
<tr>
<td>Labor as critical resource -- yes.</td>
<td>No.</td>
</tr>
<tr>
<td>Role of key actors*—positive.</td>
<td>Negative.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>MNC characteristics</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ER strategy — global.</td>
<td>Local.</td>
</tr>
<tr>
<td>Structure: facilitative (i.e., networked).</td>
<td>Hierarchical, information flows limited by localized strategy and undeveloped communications system.</td>
</tr>
<tr>
<td>Veteran status (age).</td>
<td>Newly established.</td>
</tr>
<tr>
<td>Organizational culture strong.</td>
<td>Weak.</td>
</tr>
<tr>
<td>Dependent on headquarters.</td>
<td>Independent of HQ — powerful subsidiary or dependent on local firms.</td>
</tr>
<tr>
<td>Presence of HQ-oriented expatriates.</td>
<td>Absence of them.</td>
</tr>
<tr>
<td>Founded by HQ.</td>
<td>Founded by merger with local company.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Institutional (political/economic/cultural) environment</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Similar to headquarters’ nation.</td>
<td>Very different.</td>
</tr>
<tr>
<td>MNC practices in sync with local culture.</td>
<td>Out of sync with local culture.</td>
</tr>
</tbody>
</table>

*Note: * Refers to governments, employers, and unions.
toward some general model would indicate that horizontal diffusion is taking place. Evidence that they also converge to the practices pursued by subsidiaries of MNCs would support the proposition that MNCs are important diffusers. Our findings, nonetheless, need to be treated with due caution, as we examine relatively few firms in each industry and as the industries studied are not necessarily representative of other industries. At this initial stage of our research agenda, moreover, our modeling remains incomplete. Hence, important dimensions of the diffusion of best practices in HRM/LR are not addressed. Given a growing attention and conjecture in the business press about MNCs as important diffusers, yet the complete absence of academic study on the subject, our study is intended to serve as a valuable starting point for more elaborate and analytically sophisticated analyses.

CASE STUDIES

India

Although MNCs have operated in India for many years (in some cases, for many decades), their equity investment had been limited to 40 percent. Consequently, many do not have majority control, and many have entered the country via the establishment of joint ventures. Only after economic liberalization in 1991 were MNCs allowed 100 percent ownership and since then inward FDI has soared from U.S.$83 million in 1991 to U.S.$8 billion in 1995. Nevertheless, by any measure of globalization, India cannot yet be regarded as a significant “globalizer.” For instance, as a percentage of gross domestic product (GDP), exports and imports remain at under 12 percent and 14 percent, respectively. Furthermore, inward FDI as a percentage of gross fixed capital formation is less than 1.5 percent, and outward FDI is practically nonexistent (UNCTAD, 1998).

Much of the FDI in manufacturing is intended for India’s large and growing domestic market, rather than for export. Although MNCs have entered all sectors, the consumer goods industries have attracted the most investment. In these industries, MNCs either compete directly with established Indian firms or ally themselves with established Indian firms or other established MNCs that have operated in India for a long time (e.g., Lever Brothers, Pfizer, and Hoechst). We examine the diffusion of best practices in HRM/LR in four major industries.

White Goods Industry.

"White goods" refers to consumer durables such as refrigerators, washing machines, and air conditioners. Since liberalization, the industry has undergone considerable restructuring. Before liberalization, the market was dominated by Indian firms, including Godrej (accounting for a 45 percent market share), Allwyn, Videocom, and BPL. Following liberalization, U.S.-owned Whirlpool entered the market and subsequently purchased Indian-owned Kelvinator; Godrej merged with U.S.-owned GE; and Videocom has been considering some form of merger or acquisition with both Korean-owned Daewoo and Samsung. Within a few short years, therefore, the ownership and market share profile in this industry has changed substantially. The industry is now dominated by global firms through direct ownership or joint ventures, and most companies have recently established alliances with MNCs. Whirlpool has become the market leader with its 35 percent share, followed by Videocom, Godrej-GE, and BPL holding about 21 percent shares each. Industry sources suggest that there will be a major shake-up in this industry in the next two or three years.

We studied the two industry leaders, Godrej-GE and Whirlpool. Although Godrej-GE still owns several factories that have been in the Mumbai region for years, and Whirlpool has taken over the Kelvinator factory near Delhi, both companies have also pursued greenfield strategies since liberalization. Both have built new plants, investing in new technologies, hiring new workers, and creating new systems. In Table we briefly summarize the changes in HRM/LR practices between the older and newer plants of these two companies. As shown, there is remarkable similarity between the new plants of both firms. Godrej-GE HR managers report that many of the work organization plans and the linking of compensation to skill acquisition were adopted from GE. Whirlpool has introduced its production and work organization practices (it follows a uniform pattern in the 28 countries where it has manufacturing
units), and, as is clear, the HRM/LR practices at Godrej-GE and Whirlpool are remarkably alike. The HR manager at Videocom reported as well that their factories in southern India were implementing similar changes in HRM/LR practices.

The profile of practices shown in Table 9.3 indicates that there is clear convergence toward an international model in terms of what is contemporarily viewed by many as best practice in manufacturing. The movement toward this model occurred after liberalization in India and in a market dominated by multinationals. Although there are obstacles (Indian labor laws, in particular) to employer flexibility to adjust employment, the changes identified and the restructuring of the market strongly suggest that foreign-owned MNCs have had a significant effect on the diffusion of HRM/LR practices in this industry.

| Table 9.3 Employment Relations in the White Goods Industry: India, 1997 |
|-------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                           | Godrej-GE (old) | Godrej-GE (new) | WOL (old) | WOL (new) |
| Work organization | Tayloristic. | Multiskilling and job rotation. | Tayloristic, with transitional efforts to multiskilling and job rotation. | Multiskilling and job rotation; self-directed work teams. |
| Compensation | Company welfarism; fixed. | Lead the market but without company welfarism; modest bonuses for skill acquisition. | Median; bonuses for skill acquisition. | High variable component, based on 360-degree appraisals. |
| Training emphasis | Low/not relevant. | High. | Attempted move from low to medium. | High. |
| Employment flexibility | Reduction by attrition. | Stable. | Substantial cuts via VRSSs and transfers to other companies; looking to cut more. | Stable. |
| Labor–management relations | Internal union; cooperative. | No union. | Internal union; conflictual. | No union. |

The Pharmaceutical Industry.

India's economic liberalization policies, coupled with its entry into the World Trade Organization (WTO), have completely altered the economic environment of the pharmaceutical industry. Prior to liberalization, the pharmaceutical industry was tightly regulated to ensure that drugs were available to everyone at a reasonable price and protected against the vicissitudes of international competition. Additionally, Indian firms were granted patents to produce drugs if they could merely prove that the processes through which drugs were produced were different from those of the original creators of the drugs (usually MNCs). This spurred a number of firms to enter the market based on process innovations but also ensured a constant presence of MNCs in the country that wanted to "protect" their products. However, since India joined the WTO in 1995, international patent law applies to India. This means that Indian pharmaceutical firms' viability will depend heavily on their ability to develop their own drugs through investments in R&D. Poorly positioned to engage in R&D relative to MNCs, there has been substantial consolidation and merger activity in the industry.
Many of the world’s largest producers (e.g., Glaxo-Wellcome, Hoechst, Pfizer, Roussel, Novartis) have long been located in India in the form of joint ventures but, more recently, as wholly owned subsidiaries. As of 1997, the market share of foreign-owned firms was about 40 percent, with a large number of Indian firms that evolved under the protectionist regime accounting for the remaining 60 percent of the market. It is important to note that the rate of profit in the pharmaceutical industry has not been high. Profit before tax as a percentage of sales in the industry has varied between 1 percent in 1991 and 6.5 percent in 1994—1995. Maintaining profitability under a regime of continuing price controls has forced pharmaceutical firms to focus heavily on ways to cut costs and improve productivity, of which changes in organizational practices would appear to play a key role. Given this market imperative and the presence of several large successful MNCs, the Indian pharmaceutical industry can be cast as an ideal scenario in which MNCs would serve as important diffusers of best practices in HRM/LR.

We chose one MNC to study (Pfizer) based on the industry association’s view that it was characterized by cutting-edge practices. A U.S.-owned MNC, Pfizer is one of the larger firms, with four modern factories and employing about 2,000 workers and medical sales representatives. We also chose two other leading Indian firms, I-Pharm and Lupin Laboratories, the second and third largest producers, respectively. According to industry association officials, Pfizer’s best practices would gradually be imitated by the other firms in the market. Our preliminary inquiries clearly suggested that many of the MNCs such as Glaxo-Wellcome have modeled their new plants after Pfizer. Yet, as the practices identified in Table 9.4 suggests, there appears to be no sign of convergence of HRM/LR practices, despite heavy competition in a low-profit market.

While Pfizer’s Kalanyi plant practices depict what one might expect from a leading MNC, Lupin’s practices are based on an odd mix of paternalism and dynamic efficiency. Lupin does not have standardized compensation packages or salary scales and has the lowest labor turnover in the industry, at any level. Its work organization is quite Tayloristic, with relatively little multiskilling. On the other hand, employees are trained heavily in terms of the criteria that would enable Lupin to meet U.S. regulatory requirements on its products.

I-Pharm is one of the more successful Indian pharmaceutical producers, with 1,200 employees spread across seven plants. It is an Indian MNC, with operations in several countries. Its business strategy primarily focuses on producing pharmaceuticals derived from one or two complex molecules, for which there are few competitors. The HRM/LR practices in I-Pharm are not particularly noteworthy; none of the typical best practices such as multiskilling and team-based work organization had been adopted. Company officials, moreover, report that the company’s Tayloristic work organization has proved quite sufficient given its business strategy.

This industry case is intriguing since there exist conditions likely to stimulate firms to adopt best practices in HRM/LR. These conditions include low profit rates, a highly competitive environment, and a change in patent regulation that creates new cost and development challenges for local firms. Our study of the major players and discussions with representatives of the industry association, however, suggest the following interpretation. Although Pfizer is praised as having the best practices among MNCs, the practices at Lupin are, to any informed observer of Indian industrial relations, much more innovative and, in regard to labor turnover, the most effective. This, in turn, raises the question: What constitutes best practice? Lupin provides the example of a case where the old, presumably antiquated style of paternalism works quite well. We conclude, therefore, that despite a significant presence of major MNCs, some having been present in India for a long time, there has been very little diffusion of MNC best practices in HRM/LR to domestic companies in the Indian pharmaceutical industry.
Ever since the major banks were nationalized in 1969, the banking industry in India has been dominated by the public sector. The industry currently comprises some 27 public sector banks, 35 domestically owned private banks, and 29 foreign-owned banks. The public sector banks dominate the industry in terms of deposits, accounting for 92 percent of all deposits in 1996. In terms of profitability, however, they rank far below both the private sector domestic banks and foreign-owned banks. For instance, in terms of net profit per worker, the national banks reported estimates of Rs. 4614 crores, while the foreign-owned banks reported estimates of Rs. 456649 crores in 1995-1996 (1 U.S.$ = 44 Indian rupees, October 2000). In the following year, most national banks suffered losses.

Given this scenario and consistent with broader economic reforms, the government has been implementing recommendations of the Narasimham Committee, which has been charged with designing ways to improve the performance of the financial sector generally. These reforms have included, for example, the restructuring of banks, bringing transparency to balance sheets, and establishing parity between public and private sector banks to enhance competition. These reforms have served to pressure the nationalized banks to become ever more efficient.

The banking sector is also characterized by strong unions and industrywide bargaining. There are four major peak federations representing clerical employees and two major unions representing bank officers. HRM/LR practices are, by and large, regulated by the industry-wide collective bargaining agreements. There are major differences, nonetheless, in HRM/LR practices between nationalized and foreign-owned banks. In Table 9.5, we summarize the differences in selected practices between the public sector banks as a whole and three subsidiaries of foreign MNCs.

Although competition through increased foreign and domestic investment has not increased substantially, the banking industry is central to the government’s liberalization plan. Consequently, there has been bureaucratic pressure placed on public sector banks to reform their work practices and ways of doing business that strengthen customer services and loan performance. This pressure is sometimes quite direct, as in the instance of the government’s recent suggestion that employee pay should be tied to
branch performance and its threat to close insolvent banks. Moreover, by opening some banking services heretofore closed to private investment, competition is expected to increase. These pressures are evident both in industry-level bargaining outcomes and at the level of the firm. A long tradition of job control and resistance to technological change is gradually giving way to deployment flexibility and multiskilling, led by the foreign-owned banks. Complementing these practices, there is an increased emphasis on training, even if actual implementation of programs has been very uneven across banks.

Government intervention in the diffusion of best practices in HRM/LR systems is noteworthy. The National Institute of Bank Management (NIBM), a government institute created to provide training, has been charged with the task of creating new training programs on work organization and customer service,

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<tr>
<th>Table 9.5</th>
<th>Employment Relations in the Banking Industry: India, 1997</th>
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<tbody>
<tr>
<td></td>
<td><strong>Public Sector</strong></td>
</tr>
<tr>
<td>Work organization</td>
<td>industry-level agreement on job rotation and multi-skilling; however, variation in implementation at the local level.</td>
</tr>
<tr>
<td>Compensation</td>
<td>fixed; largely seniority-based.</td>
</tr>
<tr>
<td>Training emphasis</td>
<td>low but increasing.</td>
</tr>
<tr>
<td>Employment flexibility</td>
<td>stable; reduction via attrition.</td>
</tr>
<tr>
<td>Labor-management relations</td>
<td>union; conflictual.</td>
</tr>
</tbody>
</table>

based specifically on studies of the foreign-owned banks. The NIBM is basing its training programs on the material offered at Grindlays Training College at Chennai, which is highly recognized for its training programs. There have been some notable successes in diffusing best practices to two public sector banks (Punjab National Bank and the Bank of Maharashtra) that have attempted to adopt the principles set out by the foreign-owned banks. Therefore, while the foreign banks serve as models for the public sector banks to emulate, the degree of diffusion of best practices in HRM/LR has been hindered significantly by the industry-wide collective bargaining agreement and antagonistic relationships between management and labor. On the other hand, these cases highlight the role of government and training institutions in the diffusion process.

The Electronics and IT Industry.

The electronics and information technology industry in India is the fastest growing industry in the country, comprising several different segments, such as software, computer equipment and peripherals, computer maintenance, systems training, and scanners
and related products. The industry has witnessed double-digit growth since 1991, and software exports have been growing at over 50 percent per year since 1991. The top 20 firms account for over 75 percent of the market share in the industry. In the nonsoftware sector, the industry is dominated by MNCs and Indian firms in partnership with MNCs. The largest firm is HCL-HP, followed by TATA-IBM and WIPRO (a domestic company). The other giants in the industry, such as INTEL, COMPAQ, and DIGITAL, have a growing presence. The industry’s economic future appears favorable as domestic information technology spending has increased by a factor of eight since liberalization.

HRM/LR reforms, nonetheless, are imperative. An acute shortage of qualified people, especially in software professionals, has resulted in very high labor turnover rates. Indeed, in 1997 the average annual rate was 30 percent. These shortages and exceptionally high turnover rates have led to fast rising compensation levels and recruitment poaching. Further, rapidly changing technology requires high levels of training investment, but employees who have acquired the requisite training are immediately sought after by other companies. Thus, best practices in HRM/LR in this industry are those that yield high retention rates, which is the focus of our case studies in this industry.

We studied three firms (Table 9.6). The first was WIPRO, a diversified and highly successful Indian computer firm. There has been little change in the company’s HRM/LR systems since liberalization. WIPRO enjoys one of the lowest turnover rates among the firms that we studied, with turnover of skilled labor at about 4 percent and turnover of software professionals at 6 percent annually. The second firm studied was TATA-IBM, a joint venture in which IBM has taken responsibility for management. All HRM/LR practices have been developed by IBM worldwide and thus, best practice systems from IBM are replicated here. The turnover rates at this company in 1997 were about 20 percent for software engineers and 10 percent for other personnel. The third company studied was Hewlett Packard (HP), which had recently severed its business relationship with HCL India. Because it has operated in India since 1969, it cannot be viewed as a new entrant (unlike TATA-IBM). HP’s overall turnover rate is the best in the industry and, with respect to both software professionals and skilled workers, slightly better than WIPRO’s at 4-5 percent on average. The low turnover rate appears to be attributable to the creation of a strong corporate culture that values the individual employee.

The information reported in Table 9.6 suggests that there has been very little diffusion of HRM/LR practices in the industry. These cases call into question any dominant role of MNCs as diffusers of HRM/LR practices. For example, in contrast to IBM’s difficulty in introducing its systems, WIPRO’s homegrown strategy (which was developed before liberalization) appears to be highly successful. Although HP has been successful in diffusing headquarters’ model of HRM/LR practices to its Indian subsidiary, there is little evidence that it is being widely copied in this industry. In summary, despite similar industrywide pressures that might force convergence to a high common standard of best practices in HRM/LR, we found very little such diffusion in the Indian electronics and IT industry.
Malaysia

Unlike India, the Malaysian economy has been relatively more exposed to globalization. Predicated on FDI, the government adopted an export-oriented industrialization strategy in the 1970s. This strategy proved remarkably successful. Exports and imports as a percentage of GDP in 1997 were 128 percent and 126 percent, respectively. As a percentage of gross fixed capital formation, inward FDI amounted to 12 percent, and outward FDI amounted to 8 percent. Not surprisingly, MNCs have a substantial presence in some industries, and, given a long history of FDI, Malaysia is a useful alternative location to India regarding MNC influence on the diffusion of best practices. In our effort to capture variation in the differences of best practices in HRM/LR, we chose one industry that is almost completely export-oriented (electronics) and a second that is almost exclusively focused on the domestic market (banking).

The Electronics Industry

The electronics industry is the largest industry in terms of exports and manufacturing employment in the country. The industry was established in the early 1970s, when Malaysia embarked on an export-oriented industrialization program. Malaysia is now home to almost all of the large semiconductor producers in the world, and production accounts for 37 percent of the country's export earnings. Our case studies were drawn from the state of Penang, which is the hub of electronics assembly, but we also rely on two case studies conducted in 1995 (see Kuruvilla, 1995). Trade unions were banned in this industry until 1988, but even after the ban on unionization was lifted, only enterprise based "in-house" unions have been permitted. Today, only 6 out of 50 factories in Penang have such in-house unions.

The electronics sector in Malaysia is diverse and has many segments, ranging from the design and manufacture of semiconductors, to the production of various electronics and computer-related items. Our cases are primarily drawn from the
production of electronic components, largely because several studies exist on the narrower semiconductor sector (Kuruvilla, 1995). The central HRM/LR characteristic of the electronics industry is its tight labor market. The industry faces high turnover, which puts pressure on employers to create HRM/LR systems designed to retain employees and to develop adequate skills by investing in training. It has proved important, therefore, that companies be viewed by employees as attractive employers.

We studied four firms in the electronics industry. The first is a Japanese-owned subsidiary, Nippon Electronics, which produces cathode-ray tubes. The remaining three companies are subsidiaries of U.S.-based MNCs, the names of which are disguised to satisfy our agreement of confidentiality. The first of these subsidiaries produces key computer components (Micro), the second produces disk drives (Drive), and the third produces heads for drives (Elecomp). A summary profile of HRM/LR practices is provided in Table 9.7.

In sharp contrast to the other firms, Elecomp faces a considerably different economic circumstance than the others. It has been using an out-of-date technology and has suffered steady declines in sales, profitability and employment, which appears to have influenced its HRM/LR strategy and practices to a significant extent. Consequently, its HRM/LR practices are distinctly different from those of the three cases studied. Although there is some degree of variation in HRM/LR practices across the other three companies as a result of different business models pursued, there is, nonetheless, a high degree of similarity of practices. This high degree of similarity appears to be a product of the dynamics of the generally tight labor market, the dominance of MNC operations in the industry, and extensive benchmarking within the industry. Hence, in the electronics industry we observe an unusually high degree of diffusion and convergence in regard to best practices in HRM/LR.

Our investigation into the diffusion process revealed that there were both formal and informal networks in which human resource managers were able to track and compare HRM/LR innovations. On a formal network basis, all firms regularly benchmark their practices. Firms like Micro benchmark globally with other Micro plants in other nations and locally with all factories in the region. Micro also plays a leading role in the dissemination of HRM/LR innovations in the local area, to both its contractors and suppliers but also to the industry as a whole. There was general agreement among the HR managers whom we interviewed that Micro was the most attractive employer (and, in fact, Micro reported the lowest turnover rate in this high turnover industry). Micro also served as a model for other employers outside the electronics industry.

Perhaps more importantly, all of the companies are members of the Penang Skills Development Center (PSDC), a government organization that was formed for developing skills needed in the electronics sector. The organization relies on its member companies to donate equipment and provide training for operatives. In an area where labor is in short supply, such training has become essential. Thus, the PSDC provides the institutional base for human resource managers to learn from each other. As Kuruvilla (1995) explains, this arrangement is responsible for the remarkable situation wherein global competitors share knowledge about manufacturing processes and HRM/LR. Again, the high turnover rates in a tight labor market provide a strong incentive for companies to be seen as attractive employers, which in turn has induced a substantial degree of imitation of successful practices.

While these cases clearly support the notion that MNCs are important diffusers of HRM/LR practices, we underscore that this is an industry that almost exclusively comprises, and is dominated by, MNCs from all regions of the world. Consequently, our analysis of the diffusion of best practices observed here does not include diffusion to leading domestic firms, as in our previous analyses. Although the parent offices of MNCs vary in their influence on the development of HRM/LR practices in their subsidiaries, the remarkable similarity in practices found among foreign-owned operations is due to extensive benchmarking that has become formalized through the PSDC. Our case analysis of the electronics industry in Malaysia highlights, therefore, the key role of local institutions (such as the PSDC) in the diffusion of HRM/LR practices.
The Banking Industry

The commercial banking sector in Malaysia enjoyed steady growth during the 1990-1995 period, with major increases in the value of loans (260 percent), number of employees (46 percent), and profitability (300 percent). Until recently, Malaysia had 38 banks, including 14 foreign-owned banks. Arising from the financial crisis and the consequent losses reported by several banks, the government, through the national bank (Bank Negara), forced industry consolidation, reducing the number of banks to about 10. The banking sector remains incompletely open to the global marketplace given that there are several restrictions on the activities of

Table 9.7
Employment Relations in the Electronics Industry: Malaysia, 1997

<table>
<thead>
<tr>
<th>Work organization</th>
<th>Nippon Electronics</th>
<th>Micro</th>
<th>Drive</th>
<th>Elecomp</th>
</tr>
</thead>
</table>


| Labor-management relations| High labor turnover (5%/month) before recession (though lower than competitors). Now under 1-2%. | High labor turnover (3-5%) before recession. But seen as attractive employer. | High labor turnover: 6% Jan. 98, falling to 3% Jan. 99. Wants to be an attractive employer in industry. Problems with performance appraisal. | High labor turnover: from 4-5%/pre-recession to 2-2.5% now. Problems with performance appraisal, supervisors. |

| Compensation               | Increment (individual based); contractual bonus (2 months); 1 variable bonus (profit-based). Aim to increase flexibility. | Increment (individual and market); contractual bonus (6 weeks), 2 variable bonuses (profit, individual, work area: quality, rejects, attitudes); stock option plan. | Increment (individual and market); contractual bonus (1 month), 4 variable bonuses (company profit; site performance - quality, timeliness, cost; ad hoc). | Starting wage RM450. Increment (individual); 2 variable bonuses (productivity, profit). |

| Employment levels/changes  | Falling slowly through attrition. | Major expansion in Malaysia. | Major expansion in Malaysia. | Falling slowly through attrition. |

| Labor adjustment mechanisms| No retraining. Insourcing. Increase training time. No payment on variable bonus. Redeploy labor between companies. | Reduced increments due to slower market growth; still higher increase than industry. Reducing use of foreign workers as locals become available. | No retraining. Insourcing (work formerly done in Philippines). Reduced increments. Reduced bonus. Encourage use of leave. | 800 layoffs (30%) through voluntary separation. Major cut in overtime. Reduce working days per week. Reduced bonus. Compulsory leave. |
foreign-owned banks, notably, in terms of the number of branches that they can open.

In general, HRM/LR practices in the banking industry are regulated by industry-wide collective bargaining agreements. There are 10 unions in the industry. Two are industry-wide unions: NUBE, representing about 30,000 clerical and bank employees, and ABOM, representing junior bank officers and managers. There are 8 in-house unions in the larger banks, which by and large represent bank officers. Through these in-house unions, represented employees are able to obtain higher benefits than negotiated in the industry-wide agreements. The employers in peninsular Malaysia are represented by the Malayan Commercial Banks Association (MCBA), which negotiates separate industry-wide agreements with NUBE and ABOM. Both employers and unions apparently view industry-wide bargaining as beneficial. Indeed, there has been little pressure from employers for decentralization in bargaining. For employers, industry-wide bargaining prevents unions from extracting above-normal wages from financially stronger banks or demanding wage increases that might cripple financially weaker banks. The benefits of solidarity among banks appear particularly high for employers during periods of downturn, such as during the financial crisis under way at the time of our inquiries. For the unions, industry-wide bargaining has ensured that employees doing like work receive like pay and core benefits, even though there may be differences at the margin from bank to bank. Although bank employees are prohibited from striking, they engage in other forms of protest, including picketing and slowdowns, which were reported to be effective.

As for much of the Malaysian labor market, the labor market for bank employees is very tight, even though the financial crisis had temporarily eased competition for labor, and the industry may incur employment redundancies as a result of anticipated further consolidation in the industry. The ABOM agreement covers retrenchments, whereas the NUBE agreement is silent on this issue. Although wage levels and bonuses are fixed via the industry agreement, banks attempt to provide more flexibility in compensation through a system of ex gratia payments. In addition, the recent NUBE agreement opened the way to introduce more flexible compensation systems tied to productivity, although no banks have as yet attempted to negotiate such provisions.

The government through its Bank Negara has exercised some centralized control regarding HRM/LR practices. Bank Negara requires, for instance, that all banks invest at least 2.5 percent of their annual wage and salary bill on training. In addition, the central bank has introduced a tax on the poaching of senior bank employees, requiring poachers to pay a six-month salary levy into a central fund. During the financial crisis, moreover, banks were discouraged from laying off employees. Foreign-owned banks have been especially sensitive to any such guidelines as they do not want to be seen as acting contrary to the wishes of the government. In general, the financial crisis and the government-led reorganization of the industry have clearly reoriented the banking industry's view regarding the importance of productivity and spurred changes in bank systems to be more effective and efficient.

We studied four banks and again have disguised their identities. “Western Bank” is the Malaysian arm of a large London-headquartered banking group. Employing about 2,100 employees, it is the largest foreign-owned bank (based on market share) operating in Malaysia. “Local Bank,” with roughly 2,500 employees, is owned by a government employee finance organization and claimed to be the sixth largest bank in Malaysia. “Conglomerate Bank” also claimed to be the sixth largest bank, employing approximately 2,500 employees. “Bank East Asia” is a foreign-owned bank based in East Asia and was ranked as the eighth or ninth largest bank at the time of our study. As shown in Table 9.8, there is some variation in HRM/LR practices, despite the industry-wide collective bargaining system.

Among the four banks studied, Western Bank had the more advanced HRM/LR innovations, practices that had been diffused from the bank’s U.K. parent headquarters. Although many of its innovative practices had been copied or were being copied by other banks, other banks had not achieved Western Bank’s level of sophistication. That was especially the case regarding employee
involvement, whereby Western Bank was viewed as the industry leader in employee empowerment and multiskilling. Although both kinds of practices were reportedly embraced in theory by other banks, only Conglomerate Bank had recently engaged in multiskilling, and none of the banks studied had implemented any formal programs of empowerment. In general, our cases show that Malaysian banks have been slow to introduce more innovative HRM/LR practices. Nevertheless, with Western Bank’s bargaining agreement with NUBE, some degree of diffusion can be expected through the industry-wide collective bargaining agreement. Overall, in comparison to best practices in the worldwide banking industry, the HRM/LR practices of Malaysian banks remain underdeveloped.

Our study of banking firms in Malaysia suggests that despite local firms’ recognizing the potential value of adopting best practices from lead MNC subsidiaries, the pace and nature of such diffusion can be significantly influenced by industry-wide bargaining agreements. We believe that this industry analysis highlights the important impact of labor market institutions on horizontal diffusion, notably, the role of unions and collective bargaining structures as potentially important agents in shaping the form and moderating the speed of diffusion. Given Malaysia’s long exposure to globalization, this slow diffusion is all the more striking.
Based on our preliminary study of HRM/LR practices among lead firms in four industries in India and two industries in Malaysia, we found considerable variation in practices, thus questioning the role of MNCs as important diffusers in these countries and perhaps in developing nations more generally. Our findings also question whether MNC HRM/LR practices can, indeed, be characterized as “best practices” in all of the industries studied. Variations in practices persist despite several market and regulatory pressures for reform toward achieving greater efficiency and possible convergence on the most effective HRM/LR models. These pressures include (1) tight labor markets for qualified workers and resultant high turnover (the electronics industries in India and Malaysia), (2) heightened competition and low profit margins (the pharmaceutical industry in India), (3) financial market crises (the banking industry in Malaysia) and (4) regulatory reforms targeting HRM/LR practices (the banking industry in both India and Malaysia).

What do these cases tell us about the importance of MNCs as diffusers? Our findings provide little support for some factors and some support for various other facilitators and inhibitors that were identified in Tables 9.1, 9.2. First, we find little support for the proposition that levels of diffusion will be higher in countries that have been exposed to globalization for a longer time. Diffusion appears no higher in Malaysia than in India, despite Malaysia’s much longer exposure to dominant MNCs. This could, of course, be an artifact of our case selection. Second, our analysis points to several industry variables (e.g., the degree of domination of markets by MNCs, export-oriented production, and dependence on skilled labor) as a more likely source of variation. Third, the evidence supports the proposition that the extent to which MNCs dominate a particular industry affects the diffusion of HRM/LR practices in the industry. Support for such a proposition is nicely illustrated by our findings regarding the white goods industry in India and the electronics industry in Malaysia. In these industries, the major players are all MNCs, and diffusion is relatively strong, in contrast, for instance, with the Indian banking industry.

Fourth, a factor that does not appear to affect the diffusion of HRM/LR practices but influences the kinds of practices that are introduced by MNCs is the national IR system. For example, Indian labor law does not permit retrenchment, which limits management’s ability to achieve numerical flexibility. Once a set of HRM/LR practices has been shown to work well within an IR system, however, diffusion is not inhibited by IR systems. Regarding the effects of differences in IR systems on diffusion is the question of whether or not MNCs affect diffusion by attempting to change national regulations to allow the introduction of HRM/LR practices favored by these companies. We found some evidence of such effects in the Malaysian electronics industry but not in India, despite calls by MNCs for liberalization of labor market regulations. It follows, therefore, that the greater the influence of MNCs on altering IR system regulations, the more likely MNC best practices in HRM/LR will be diffused.

To argue that IR system effects are limited is not to suggest that certain actors do not play significant roles as agents of diffusion. Our cases point to three especially important actors. The first is management. This is illustrated in the case of the Malaysian electronics industry, where formal and informal networks shaped ideas about HRM/LR best practices and influenced their implementation. Management, for example, played a strong role in the development of institutions that subsequently influenced the adoption of particular HRM/LR strategies associated with a more highly skilled workforce, as highlighted by the influence of the Penang Skills Development Center. This and other cases also highlight the role that governments can sometimes play in the diffusion process. Of special note is the important role played by the Indian government through its central bank, which helped diffuse specific HRM/LR practices throughout the Indian banking industry. Similarly, employers and unions together may promote diffusion by establishing institutions that assist in the process or, alternatively, limit diffusion via industry-wide bargaining agreements. Such is the case in the Indian and Malaysian banking industries, in which centralized bargaining had the effect of limiting diffusion despite intense pressures for reform and the presence of MNC banks that appear to have deployed superior HRM/LR practices. The Malaysian banking case suggests, however, that it is not always unions that block reform, as it was the unions that promoted decentralization of authority.
Fifth, our findings highlight the importance of labor market competition in encouraging convergence on best practices in HRM/LR. The intense competition for labor clearly creates incentives for firms to adopt best practices that help them attract and retain qualified workers. Labor market pressures were especially strong in the Malaysian electronics and Indian software industries, although diffusion appears to be much more widespread in Malaysian electronics. This difference suggests that there are joint or interaction effects underlying diffusion. That is, the Malaysian electronics industry is more homogeneous (focusing on semiconductors) and more tightly integrated into worldwide manufacturing networks controlled by innovative MNCs than the Indian software industry. In addition, Malaysian electronics manufacturers are primarily focused on export production, whereas the Indian industry produces for both export and domestic markets. In short, the combination of attributes such as tight labor markets, competitive export-oriented product markets, and industry dominance by MNCs is likely to have mutually reinforcing interaction effects that encourage more widespread and probably faster diffusion of best practices in HRM/LR.

Can the lack of convergence on best practice models be linked to the argument that HRM/LR may not be a source of competitive advantage in India and Malaysia or in developing countries more generally? Our results vary by industry. In several industries where there is considerable competitive pressure from both product and labor markets for improvements in HRM/LR, convergence is evident. Where these pressures are less intense (e.g., pharmaceuticals in India and banking in Malaysia), not only is there considerable variation, but some indigenous forms of HRM/LR practices appear to be as effective, if not more so, as so-called best practices developed by MNCs from advanced countries. Such a finding may suggest that in labor-intensive industries, including subsectors of high-tech industries, the development of best practice may require a careful blending of foreign-born practices with local customs. Preliminary evidence drawn from our studies of pharmaceutical company Lupin and electronics company WIPRO in India would support such a proposition.

The implications that we draw from the foregoing analysis of diffusion of MNC best practices in HRM/LR can be summarized by the following eight propositions.

1. Diffusion of MNC practices is not directly related to length of time that domestic companies in developing nations have been exposed to MNCs.
2. Diffusion of practices and the role of MNCs in that diffusion are more a function of industry-specific characteristics than national differences among developing countries.
3. The greater the market share and dominance of MNCs in an industry, the greater the diffusion of MNC best practices.
4. The tighter the labor market for qualified employees in an industry, the greater the diffusion of practices.
5. MNCs are more likely to be important diffusers of practices in industries that focus more on serving international than domestic markets.
6. The interaction and reinforcing effects of selected industry product and labor market factors increase diffusion.
7. The presence of formal and informal management networks, government support, and collective bargaining agreements influence the diffusion of new practices, either positively or negatively.
8. The greater the difference in the contexts within which practices were framed (developed countries, higher-skilled workforces) compared to where they might be diffused (developing countries, lower-skilled workforces), the less likely practices will be perceived as relevant, and, hence, the less MNC practices will be diffused.

We close with two conclusions. First, “best practices” in HRM/LR must be defined in both theoretically and empirically meaningful terms. Our research suggests that best practices are not equivalent to universalistic MNC practices. Rather, best practices
need to be defined in a way that is industry-specific and also takes account of broad variations in local conditions. Second, we need to understand more thoroughly the processes of diffusion and, in turn, the factors influencing the speed of adoption by domestic companies. Other than to highlight the importance of specific institutions and actors in influencing diffusion, our cases reveal relatively little about the underlying processes and speed of diffusion. It will be important, therefore, to more richly understand the institutional contexts of decision making of both MNC diffusers and potential domestic company adopters, as well as the organizational characteristics that influence such decision making. The next stage of inquiry holds promise that much can be gained, not only theoretically but also in terms of guiding policy making on a critical subject that lies at the intersection of the global and the local.

NOTE

1. The original case studies in India and Malaysia can be found in Hiers and Kuruvilla (1999) and Peetz and Todd (1999). These studies form part of a wider canvass of national level studies of globalization and HRM/LR funded by the ILO.

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