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## South Korean MNEs' international HRM approach: Hybridization of global standards and local practices

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### ABSTRACT

This paper analyses the international Human Resource Management (HRM) approaches of Korean Multinational Enterprises (MNEs). Through a study of nine major Korean MNEs' approaches to subsidiary-HRM, it is argued that the firms pursue hybridization through a blending of localization and global standardization across detailed elements in five broad HRM practice areas. Local discretion is allowed if not counter to global HRM system requirements and "global best practices" used as the template for global standardization of selected HRM elements. This strategic orientation appears to be part of a deliberate response to the "liabilities of origin" born by firms from non-dominant economies.

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### 1. Introduction

Over the last two decades, the issue of the global standardization versus localization of subsidiary-HRM practices has been a central debate in the literature on human resource management (HRM) of multinational enterprises (MNEs) (Festing, Knappert, Dowling, & Engle, 2012; Pudielko & Harzing, 2007). Extant research on the issue has mainly focused on MNEs based in developed economies such as the U.S., European countries, and Japan (Thite, Wilkinson, & Shah, 2012). Recently, there has been a growing interest in various aspects of the activities of a "second wave" of MNEs from emerging economies (Bonaglia, Goldstein, & Mathews, 2007) such as, Brazil, China, India, Mexico and Russia as they grow in number and size. As attention shifts to emerging markets, there are important research questions that should be investigated, particularly in MNEs from newly industrialized economies (e.g., South Korea, Singapore, and Taiwan). Although the size of newly industrialized economies is smaller than that of major emerging economies, foreign direct investment (FDI) from newly industrialized economies is still growing, and unlike MNEs from emerging markets, there are a significant number of MNEs from among these

that occupy leading positions in their global markets (Filatotchev, Strange, Piesse, & Lien, 2007; UNCTAD, 2006).

This study explores South Korean MNEs' approach to subsidiary-HRM practices. Research on Korean MNEs could have implications to wider groups of MNEs. First, Korean MNEs compete successfully in global markets against MNEs from developed economies and they are widely considered to be exemplars of successful MNEs from newly industrialized economies (UNCTAD, 2006). Some Korean MNEs are large, with a wide geographical reach in multiple subsidiary locations around the world and in leading positions in their respective sectors. In other words, these MNEs resemble and therefore are directly comparable with their counterparts based in developed economies in terms of size, global presence, and position in the global market. Secondly, at the same time, as their home country lacks a dominant status in the world economy, they might experience a "liability of origin," which refers to the distinctive challenges or disadvantages stemming from their national origins (Bartlett & Ghoshal, 2000; Chang, Mellahi, & Wilkinson, 2009; Chung, Bozkurt, & Sparrow, 2012; Glover & Wilkinson, 2007; Ramachandran & Pant, 2010). Hence understanding the current state of their international HRM reveals insights, not just for subsequent cohorts of MNEs from newly industrialized economies and emerging markets, but also for the general domain of contemporary MNEs in general. We argue it is particularly important to see whether South Korean MNEs adopt a distinctive approach to subsidiary-HRM practices, which may call into question the current dominant assumptions about HRM strategy and practice in MNEs, as these assumptions are

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predominantly informed by what is known about MNEs based in developed countries. An understanding of how South Korean MNEs approach their global people management is critical to debates on the possible emergence of an “Asia Pacific model of HRM” (Dowling & Donnelly, 2013, p. 172).

We present the findings of a study that examines parent companies' approach to subsidiary-HRM practices of nine Korean MNEs, all of which enjoy internationally competitive positions in their respective sectors. The major part of study is based on thirty interviews with HR executives and senior managers from the corporate headquarters directly responsible for the development and implementation of the IHRM strategy in the firms. As one part of the interview process, we used a structured-interview instrument designed to examine the different orientations toward global standardization and localization at the detailed element level within each of five HRM practice areas across the nine MNEs (job and grade, recruitment and selection, training and development, performance management, compensation and benefits). In total we gathered data on each of forty-seven elements about which decisions needed to be made with regard to global standardization or localization: nine for job and grade system, six for recruitment and selection, six for learning and development, sixteen for performance management, and ten for compensation and benefits. In our findings, we show that the IHRM approaches of the Korean MNEs are best captured by a distinctive approach of hybridization across these elements of individual HRM practices, rather than more wholesale orientations of “global standardization” or “localization”.

The remainder of the paper is structured as follows. First, we present the currently dominant understanding and assumptions in research on the IHRM strategy of MNEs. After a discussion of our research methodology and an introduction of the case organizations, the empirical findings are presented. We then offer an interpretation of the findings with reference to existing theoretical assumptions, and conclude with a discussion of the contribution of the study and its limitations, as well as suggestions for future research.

## 2. International HRM strategy in the literature: dominant assumptions and new challenges

One of the key issues in the practice of IHRM is the need to manage the dual pressures of global integration and local responsiveness (Brewster, Sparrow, & Harris, 2005). Research on the issue has examined the degree of global integration or local responsiveness in IHRM (see for example Björkman & Lervik, 2007; Brewster, Wood, & Brookes, 2008; Chung et al., 2012; Evans, Pucik, & Barsoux, 2002; Farndale & Paaue, 2007; Farndale, Brewster, & Poutsma, 2008; Rosenzweig, 2006). It has also begun to distinguish the use of particular mechanisms in IHRM integration (Smale, Björkman, & Sumelius, 2013). Much empirical study in the area is underpinned by the integrative IHRM model of Taylor, Beechler, and Napier (1996), which argues that an integrated approach regarding IHRM strategy and practices has to distinguish the corporate-wide level from that of affiliates, and also from the employee-group level. Given that our main interest is in company-wide IHRM strategies, we also work with this definition of IHRM strategy, even while we recognize there may be more than three abstract orientations or routes to globalization of HRM. Accordingly, we define IHRM strategy as the general approach or orientation taken by an MNE “in the design of its overall IHRM system, particularly the HRM systems to be used in its overseas affiliates” (Taylor et al., 1996, p. 966).

Three key assumptions have been dominant in research on orientations to IHRM strategy. First, the degree of standardization (versus localization) of subsidiary-HRM practices has been

considered as a key dimension underlying different orientations in IHRM strategy (Brewster et al., 2008; Dickmann & Müller-Camen, 2006; Pudelko & Harzing, 2007). Taylor et al. (1996) identified three generic IHRM orientations at the corporate-level of MNEs: exportive, whereby corporate HR actors attempt to transfer parent company's HRM system to subsidiaries; adaptive, whereby they attempt to adapt subsidiary HRM system as much as possible to the local context; and integrative, in which “the best” approaches are sought from parent and subsidiary practices. In most empirical IHRM research, the degrees of standardization as an integration mechanism has been examined by assessing the similarity between parent and subsidiary firm practices (e.g. Björkman, 2006; Brewster et al., 2008; Rosenzweig, 2006).

Second, previous studies have typically examined the degree of standardization either at the overall practice level (e.g. performance management, recruitment and selection, compensation, etc.) or the level of entire HRM functions, through the use of measures that aggregate ratings on the degrees of standardization for individual HRM practices (Björkman, 2006). For example, a pioneering study on HRM practices of MNEs by Rosenzweig and Nohria (1994) examined whether subsidiary-HRM practices were similar to parent's or local practices in each of six HRM practice areas such as employee benefits, annual time off, variable compensation for managers, and so forth. Research has increasingly looked at the implementation of particular HRM practices, for example talent management (Hartmann, Feisel, & Schober, 2010) or global performance management (Festing, Knappert, Dowling, & Engle, 2012) in different subsidiary locations. Importantly, while standardization may be implemented across a specific element of an individual HRM practice, the approach toward another element of the same practice at the same time may be defined by localization (Brewster et al., 2005). For example, an MNE in the energy sector mapped a set of generic HR processes by breaking these down into detailed elements and revamping the country role around each process to establish a new HR system architecture. Decisions were made as to whether to allow local aberrations from the globally designed process on a detailed element-by-element basis in each HRM practice (Sparrow, Brewster, & Harris, 2004).

The third dominant assumption is that in attempts to standardize HRM processes, parent-company practices are the major reference, in line with the aforementioned orientations of IHRM strategy (see e.g., Bartlett & Ghoshal, 1989; Björkman, 2006; Rosenzweig, 2006). This is evident in the widespread tendency to treat similarity of practices between parent company and subsidiaries as a key indicator of global integration of HRM within IHRM research (Hannon, Huang, & Jaw, 1995; Kim & Gray, 2005; Rosenzweig, 2006; Rosenzweig & Nohria, 1994). The use of parent practices as the major reference of standardization reflects MNEs' taken-for-granted views on effective HRM practices, the embeddedness of their practices in their home countries (e.g. Björkman, 2006) or their “administrative heritage” (Bartlett & Ghoshal, 1989; Taylor et al., 1996).

However, the dominant assumptions above have been challenged by more recent scholarship, which depicts a more complex picture in IHRM. Regarding the first and second assumptions, several recent studies show that the constitution of IHRM strategy and practices could be far more nuanced and complex than the rather simplistic framework that the degree of standardization versus localization suggests. For example, work by Edwards and colleagues highlights that a number of complex patterns of transfer, negotiation, and combination of practices exist in the process of globalizing HRM (Edwards, 2011; Edwards, Jalette, & Tregaskis, 2012; Edwards & Rees, 2008; Edwards & Tempel, 2010). In a detailed case study of Japanese multinational retail firms, both in their home country and in their subsidiaries in China, Gamble (2010) finds that the construction of subsidiary-HRM practices in

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