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Human resource strategies for managing back-office employees in subsidiary operations: The case of two investment multinational banks in Tanzania

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ABSTRACT

This paper examines the organizational and human resource management (HRM) strategies in an American and a South African multinational corporation (MNC) in Tanzania. Both claim to possess an international convergence of HRM and highly institutionalized banking systems. Application of technology, inter-organizational coordination, standardization of HRM tasks, and consolidation of international finance centers all provide compelling evidence of similarities between them. However, distinctive HRM practices on social relations emerged. This claim of international similarities is complicated by the MNCs' cultural embeddedness and by Tanzania's institutional context in determining the extent of each bank's influence on the operations of its international subsidiaries.

1. Introduction

For the last three decades, research in the area of international business studies has continued to examine the extent of management and organizational influences within MNCs abroad. Discussions have ranged from the effects of organizational "convergence" and "divergence" systems to "isomorphism" in managing human resources (HR) (McGaughey & DeCieri, 1999; Powell & DiMaggio, 1991). More recently, the relevance of cross-cultural management interface in international business systems has been widely discussed in an effort to understand the nature of the relationship between MNCs and their local responsiveness towards their own subsidiaries (Bartlett & Beamish, 2011; Horwitz, Kamoche, & Chew, 2002; Kamoche, Debrah, Horwitz, & Muuka, 2004).

In response to this discussion, more emphasis continues to be placed on the importance of a *sector* in determining the nature of organizational capabilities for coordinating HR activities internationally, either at a convergent or a divergent level, or both (Dore, 2000; Evanoff, Kaufman, & LaBrosse, 2007; O'Sullivan, 2007; Rajan & Zingales, 2003). The banking sector, in particular, has been identified as representing high levels of internal coordination of network systems, knowledge transfer, standardized training and work practices, as well as greater interdependence and tight organizational structures in business operations (Aran & Patel, 2006; Weeks, 2004). According to Pond (2007), because the banking sector deals with customers' and shareholders' investment funds, it demands a careful process of organizing, regulating and monitoring its activities.

Banking is a complex and dynamic sector that emphasizes effectiveness, efficiency and calculability with flexibility and speed (Abolafia, 1996; Dore, 2000). With increased global business competitiveness and technological growth, banks with international business orientations are under pressure to carefully organize coordination and consolidate supervision of their worldwide operations by designing specific HRM strategies and organizational systems that have an international flavor in order to meet their clients' demands and enhance competitiveness (Volmer, Werner, & Zimmermann, 2007). Rugman and Verbeke (2003) explain how MNCs carefully coordinate the transfer of firm-specific advantages (FSAs) between parent and affiliate. The relationship between the two entities determines the degree of the MNC's influence over its subsidiaries. The banking sector reflects the nature of an institutional and cultural influence in relation to subsidiary operations, as described by Harzing (2004). Essentially, the transfer of foreign management practices, through the deployment of a head office' expatriates, to a subsidiary operation may not necessarily line up with local cultural and institutional requirements during the transfer and implementation process (Kamoche et al., 2004). This relationship is further influenced by the sector itself, which has highly regulated organizational and operational business systems that ultimately limit the capacity of a subsidiary to influence the corporate business strategies of its parent MNC (Ferner, Quintanilla, & Varul, 2001; Rugman & Verbeke, 2003).

Information and communication technology (ICT) is arguably the most powerful source of global convergence in organizational business operations (Drummond, 2002). ICT speaks a universal

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language that is capable of influencing internal organizational systems, standardizing activities, coordinating business operations efficiently and influencing the behavior of those who perform the activities (Kunda, 1992). The application of technology has created a structural convergence in banking whereby work systems can be easily organized, systematically standardized and constantly monitored. Technology has placed new demands on organizational configurational systems, including the normalization of activities in organizations, instituting the power of regulation, coordination and discipline between front-office and back-office workers (see Wickham, 1997; Zuurmond, 2005), and the ability to integrate work systems into delivery operational systems (Callaghan & Thompson, 2001; Sewell, 1998).

2. Literature

In their study of the impact of technology on banking, Zuurmond (2005) and Evanoff et al. (2007) identified the nature of the business regulation systems within the sector, and the way that global MNC banks create an organizational configuration that categorizes two types of employees: front-office employees (or floor-broker investors) and back-office employees. This labor division represents a convergence of organizational structures with highly developed levels of functional networks (Kunda, 1992; Zuurmond, 2005). In each unit or section within an organizational structure, there would be various types of workers, from those who design and define work functions (i.e., front-office) to those who have little or no input into the designing role in the overall decision-making processes (i.e., back-office) (Drummond, 2002). Most banks with international business operations have front-office investors who handle the role of regional or international supervision, representing a professional with highly specialized skills (Drummond, 2002; Zuurmond, 2005). These individuals are often located at head offices and country head offices, and their role is to align service strategies that provide guidance and coordinate and monitor the activities performed by the subsidiaries' back-office employees. Often, back-office workers are located in subsidiary/affiliate offices, such as branch centers, and have only a limited role in the overall managerial decisions of their organizations. The use of various new forms of technology within the sector establishes the back-office employees as a group of workers that fulfil the "standardization of functionality" within a highly functional hierarchy (Zuurmond, 2005). They represent an internal labor market relationship that helps to maintain an organizational coordination and efficiency system within the head office of an MNC (Weeks, 2004).

A study of the Barings Bank in Singapore in 1995 illustrates the nature and behavior of front-office employees. At the time of the study, Barings Bank represented a group of investment managers who were regarded as "groupthink" (Drummond, 2002). The role of such a group is to coerce back-office employees to follow their "intellectual judgements" on financial service activities (Zuurmond, 2005). Such a rationalized nature of the internal division of labor may significantly inhibit back-office employees from having access to necessary information from front-office investors. For instance, if there are malfeasance or financial irregularities and risk or fraud, back-office employees would have limited or no influence on the financial solutions to these issues.

Internationally, the banking sector has become subject to similar global financial regulation systems (Evanoff et al., 2007). Most international accounting reporting systems, as well as currency exchange controls, stock-market forces, the International Standards on Auditing (ISA), the International Chamber of Commerce and the World Trade Organization, show tendencies towards international convergence systems (Braithwaite & Drahos, 2000). Volmer et al. (2007) illustrate how Germany and the Eurozone in particular continue to be regulated by the International Financial Reporting Standards (IFRS). The regulation also includes the U.S.–German Generally Accepted Accounting Principles (GAAP) that follows U.S. financial business models. Traditionally, the U.S. financial model tends to emphasize a dispersed network of shareholding, a high degree of institutional share ownership and tightly controlled stock-market systems, and many other international banks in developed and emerging markets have been inspired (O'Sullivan, 2007; Wickham, 1997) to follow this particular institutional system. National-institutional systems of banking in different countries have fallen under the dictates of corporate regulations and the guidance of the New York Stock Exchange (NYSE) and Wall Street – i.e., the largest financial regulators in the world (Braithwaite & Drahos, 2000) – and to some extent, the London Stock Exchange (LSE) (Evanoff et al., 2007). The NYSE and Wall Street both have significant influence in the regulation of major foreign financial corporations (Dore, 2000; *Financial Times*, 29 January, 2004: 21–24). As such, countries are expected to provide financial disclosure to the NYSE and to Wall Street, and to the International Standards on Auditing (ISA), mainly because these institutions demand such disclosure and corporations must comply. The information above shows how the function and regulatory systems of global financial services exert an extensive effect on the internationalization of rules and compliance in the financial market system (Aran & Patel, 2006). They also have implications with respect to the standardization of business activities within MNC banks, the training of employees and the handling HR tasks.

The specific purpose of this paper is to examine how the two subject MNC banks carried out their international business strategies in order to effectively manage their organizational systems and relationship-building, through the use of HRM strategies in the developing country of Tanzania. We examine the implications of these changes for the host nation and its people and for the investors (i.e., the two MNCs and their customers). Through this study, we gain an understanding of MNCs' HR strategies and the host nation's institutional ability to influence global bank's with respect to employee relations issues in this particular sector.

HRM is specifically about gaining the employees' commitment and adaptability, and about standardizing employee contracts and wages (Storey, Okazaki-Ward, & Gow, 1991). It involves selecting the best ways to manage people, their skills and knowledge through established rules, regulations, procedures and techniques (Kunda, 1992). From a Parsonian structural functionalist view of social systems, HRM is a movement in management practices and studies that attempts to impose control systems through supervision in order to achieve its functional goals of strategic integration, commitment, 'flexibility' or adaptability, and quality (Guest, 1991; Kunda, 1992). In order to explore these employee relations issues further, we examine the subject of HRM and its use within organizations as a tool for planning, designing and executing the daily management of people and work.

Flexibility is one of the most-often applied facets of HRM practices in contemporary organizations. Flexibility is understood to involve numerical flexibility, implying achievement through the use of short-term or part-time workers; functional flexibility, implying achievement through the training of employees and the use of teamwork; and financial flexibility, such as that which has already been achieved through pay variation and individualized contracts (Atkinson, 1984). More specifically, numerical flexibility refers to a situation where employees can be called in or let go, as dictated by the workload. This may mean hiring employees on flexible contracts, the most extreme form of which is the zero-hour contract, or the use of part-time work or outsourcing. Functional or task-oriented flexibility refers to a situation where employees are