An institutional theory perspective on e-HRM's strategic potential in MNC subsidiaries

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ARTICLE INFO

ABSTRACT

This paper extends the application of institutional theory to electronic human resource management (e-HRM), and strategic information systems (IS) more generally, in a multinational corporation (MNC) subsidiary setting. By adopting Scott's (2001) institutional theory perspective, this paper explores the effects of host-country institutional factors on strategic e-HRM practices in foreign subsidiaries. More specifically, the aims of this paper were, first, to shed light on how regulative, cognitive and normative institutional dimensions affect Western-based e-HRM practices in MNC subsidiaries in China, and second, to examine how these institutional factors influence the strategic potential of e-HRM in this setting. Based on interview data collected from key informants in 10 MNC subsidiaries from Beijing and Shanghai, the findings illustrate how institutional pressures create both positive transformational and negative dysfunctional consequences for subsidiaries, and that subsidiary responses to these pressures can substantially affect the ability of IS to achieve its strategic potential. Although observed local adaptations were seen to restrict the strategic potential of IS, in some cases responses seem to have enabled the transposition of a new set of strategic IS practices to this non-Western setting.

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1. Introduction

Information systems (IS) are increasingly influencing human resource management (HRM) in multinational corporations (MNCs) as electronic human resource management (e-HRM) systems become more widely used. Previous research suggests that e-HRM, defined as the "application of IS for both networking and supporting at least two individual or collective actors in their shared performing of HR activities" (Strohmeier, 2007, p. 20), typically increases the efficiency of HR and IS processes, reduces costs, and decreases transaction times. By doing so it has the potential to liberate the HR function to focus more on strategic issues (Bondarouk and Ruël, 2009a; Marler, 2009).

Such positive consequences are also amongst the drivers of e-HRM adoption in MNC subsidiaries. However, there is a lack of empirical research on the effectiveness of e-HRM in MNC settings (Strohmeier, 2007), and only mixed results on e-HRM's strategic potential (Bondarouk and Ruël, 2009a; Marler, 2009; Parry and Tyson, 2011; Ruël et al., 2004; Ruta, 2005). One reason for this may be the historically low levels of e-HRM penetration in certain parts of the world until recently. For instance, Smale (2008) found that during 2006/2007 only a handful of Finnish MNCs were using e-HRM systems in China, although there were many indications that this was a growing area of interest. However, there are good reasons to view China as a fruitful location in which to study e-HRM today. First, many Western MNCs are typically intent on transferring e-HRM

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(and models of HRM) to units in China; second, there are significant institutional differences between China and the EU and USA; and third, the institutional context for e-HRM in China is undergoing significant change.

There is still a need to address issues arising from the MNC context in international IS research (Leonardi, 2008), and this is currently a topic of increasing interest. However, Currie (2009) argues that institutional theory has not been sufficiently applied in IS research and Weerakkody et al. (2009) conclude that the use of institutional theory is still comparatively narrow and limited in the IS domain, especially when considering its wider use in organizational studies of HRM. In the HRM field, institutional theory has been used to shed light on HRM practices in MNC subsidiaries, and the factors that influence them (e.g., Björkman et al., 2008; Myloni et al., 2004). Sumelius (2009) suggests that this theoretical approach still has the potential to increase our understanding of various aspects of subsidiary HRM.

Reviews of the extant e-HRM literature (Bondarouk and Ruël, 2009b; Burbach and Royle, 2010; Strohmeier, 2007) underscore a dearth of research in the investigation of institutional factors affecting e-HRM practices in MNCs. The only study by Burbach and Royle (2010) focuses on the factors affecting the diffusion of e-HRM practices between the parent and its foreign subsidiaries. This found that an MNC subsidiary's e-HRM practices, like its HRM practices, are influenced by a broad range of external institutional factors as well as pressure from the MNC headquarters. The study did not, however, shed light on the outcomes of institutional pressures on the effectiveness or strategic impact of e-HRM practices. This paper addresses this gap and investigates the effects of institutional factors on e-HRM practices and the consequences these have for e-HRM realizing its strategic potential.

More specifically, this paper explores national host-country institutional pressures on e-HRM practices in foreign subsidiaries in China. Accordingly, it seeks to contribute to the IS and e-HRM strategy literature on two main fronts. First, this paper sheds light on how institutional pressures affect Western-based e-HRM practices in MNC subsidiaries in China. Second, this paper examines how responses to these pressures influence e-HRM's strategic potential in this setting. By using e-HRM as the empirical focus of analysis, this paper contributes theoretically and empirically to our understanding of factors affecting the strategic potential of IS in an MNC subsidiary setting.

The next sections introduce the subject of e-HRM's strategic potential and e-HRM in MNCs. The subsequent sections present Scott's (2001) institutional theory dimensions, review the work from the IS field that applies an institutional approach, and conclude with a discussion of China's institutional setting that draws on work from the HRM and enterprise resource planning (ERP) literatures. Following a description of the study's method, the findings are presented and discussed. The paper is concluded with a discussion of the study's theoretical and practical implications.

2. E-HRM in MNCs

2.1. Strategic potential of e-HRM

A number of labels have been proposed regarding the phenomenon that is now commonly referred to as e-HRM. In broader terms, e-HRM has also been referred to HR Information Systems (HRIS) (Ngai and Wat, 2006), web-based HRM (Ruël et al., 2004), intranet-based HRM (Bondarouk and Ruël, 2009a) and HRIT (Florkowski and Olivas-Luján, 2006). The concept of e-HRM in this paper is different from HRIS. HRIS refers to the automation of systems for the sole benefit of the HR function, while e-HRM is concerned with the application of web-based systems, such as employee self-service (ESS) and manager self-service (MSS), to change the nature of interactions among HR personnel, line managers and employees from one characterized by face-to-face relationships to one that is increasingly mediated by technology (Martin et al., 2008). The definition of e-HRM that best fits the empirical context of the current study integrates discussion from the IS field, where a growing number of MNCs are reported to be using ERP systems. These are defined as "configurable information system packages that integrate information and information-based processes within and across functional areas of the organization" (Kumar and Hillergersberg, 2000, p. 22). These ERP-based e-HRM systems contain HRM modules that include ESS and MSS portals (see Florkowski and Olivas-Luján, 2006), which the subsidiaries in this study were using.

When looking at the strategic potential of e-HRM in MNCs, Hannon et al. (1996) mention cost reductions as the earliest motivation behind e-HRM adoption. This is still the primary justification of e-HRM, and the one of the most consistent outcomes of e-HRM system implementation (Marler, 2009). Another connection between e-HRM systems and strategic potential is freeing up time for HR. For instance, Lawler and Mohrman (2003) argue that being an HR strategic partner goes hand in hand with spending more time on organizational planning, design, and development, and spending more time fitting the development activities of the organization to its business needs. There is also evidence that supports efficiency and improved service delivery as being both goals and realized consequences of e-HRM use (Parry and Tyson, 2011; Ruël et al., 2004; Ruta, 2005). Another aim of e-HRM implementation has been to reduce the HR headcount, especially among administrative staff, in order to provide the HR department with an opportunity to improve its image and play a more consultative or strategic partner role (Ruël et al., 2004).

However, Parry's (2011) study examining the use of e-HRM in MNCs as a means of increasing the strategic value of the HR function suggests that e-HRM may help HR to increase its value to the company by becoming more strategic, but found no evidence of cost savings due to reductions in HR headcount. The study suggests that organizations are using e-HRM in order to redeploy HR practitioners from transactional work to more strategic and value-added activities. Parry and Tyson (2011) illustrate that barriers to the realization of its strategic potential may be attributed to the limited skill levels of the HR team