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Five star hotels of a Multinational Enterprise in countries of the transitional periphery: A case study in human resources management

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ABSTRACT

The paper examines the application of human resource management (HRM) practices by a Multinational Enterprise (MNE) whose operations extend from unexplored post-Soviet countries' transitional periphery economies to advanced economies. By involving hotels of a global luxury US chain in Azerbaijan (Caucasus) and Kyrgyzstan (Central Asia), this in-depth case study focuses on the labour-intensive hospitality industry which, although being relatively neglected by mainstream research, is among the first movers in new markets through the setting of business infrastructure and then leisure tourism. Through Whitley's dimensions of employer–employee interdependence and employee delegation, comparisons highlighted few differences between properties operating in the particular transitional periphery economies and those in a developed country (Germany) owned by the same chain. On the basis of corroboration obtained through a multiple case study methodology, dissimilarities identified were in terms of the flexibility of employment, outsourcing and dismissal procedures; however, despite socio-economic differences across nations, it is argued that luxury hospitality MNEs are able to maintain an overall uniform implementation of HRM policies and practices regardless of locale through a “geocentric” approach as illustrated by Perlmutter (1969) in his seminal work.

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1. Introduction

Multinational Enterprises (MNEs) operating in emerging economies may decide to implement “low-road” practices established as key areas in the global division of labour (McCann & Schwartz, 2006). As cut-throat competition pushes businesses to converge to cost-reducing strategies, human resources management (HRM) application tends towards calculative approaches reflecting “bleak house theories of globalization” (Wood, Dibben, Stride, & Webster, 2011) unless organizations focus on higher value-added segments (Batt, 2000). This challenge is particularly evident in labour-intensive service industries such as hospitality which, as opposed to manufacturing, depend highly on the performance of their workforce interacting with customers (Singh, Hu, & Roehl, 2007).

Although the hospitality industry is mainly composed of a cadre of small and micro businesses (Davidson, McPhail, & Barry, 2011), this research analyses the case of a luxury hotel MNE for three key reasons. First of all, a global hotel chain is highly capital intensive and plays a main role in terms of foreign direct investment (FDI) in the tourism (business and leisure) infrastructure system of a country substantially impacting its economy (Endo, 2006; Kundu & Contractor, 1999). Next, there are challenges linked to the HRM of such labour intensive firms that demand accommodation to the peculiarities of host communities together with the imperative to maintain alignment to international corporate identity and culture (Lucas & Deery, 2004). Lastly, owing again to their labour intensive profile featuring unskilled and semi-skilled job levels in particular, hospitality industry has been attempting to contain labour costs through de-skilling as exemplified by the fast-food industry – sometimes referred to as McDonaldization (Ritzer, 1998). Nonetheless, since the luxury end of the market features personalized quality service, it is of great interest to explore how in this context a large and globally branded luxury hotel chain approaches HRM in its efforts to provide upscale services (Davidson et al., 2011; Nankervis, 2000) specifically in a transition periphery context.

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The aim of this paper is to contribute insight in two separate areas that have been relatively neglected by scholars: the hospitality industry MNE application of HRM policies and practices; and, transitional periphery economies. With regard to the former, although recently more has been written about HRM in the hotel industry (Davidson et al., 2011), this has often occurred by utilizing mainstream HR research frameworks and models (Lucas & Deery, 2004; Shaw, Bailey, & Williams, 2011). Further, research on the services industry overwhelmingly relates to banking, airline and retail sectors and much less specifically to hotels (Guerrier & Deery, 1998; King, Funk, & Wilkins, 2011). As for the latter, transitional periphery economies represent a most intriguing area of research because, after the collapse of the Soviet Union in the 1990s, the resulting independent countries were viewed as new frontiers where MNEs could strategically expand operations. While the transitional periphery economies of Central and East Europe were nimble in attracting MNEs, the more remote Caucasus and Central Asia regions demonstrated a systemic resistance to change that has impeded their economic development thus relegating them to a transitional periphery status (Edwards, 2006). These divergent paths are reflected in the literature, whereby the former show a limited yet growing body of empirical studies (Dalton & Druker, 2012) while, for the latter, knowledge is sparse and business and managerial understanding virtually non-existent (Harry, 2006; Lackó, 2000; Yalcin & Kapu, 2008). While these emerging countries have featured a non-homogeneous and fragmented economic development path since gaining independence (Szamosi, Wilkinson, Wood, & Psychogios, 2010), their critical geo-political strategic positioning (Tsygankov, 2006) coupled with vast natural resources (Bilgin, 2007; Dorian, 2006) and rich cultural heritage (Kantarci, 2007) offer attractive investment opportunities (Zeybek, Eden, Miller, Thomas, & Fields, 2003) in general but more specifically in the growing tourism industry (Marat, 2009; Papatheodorou, Rosselló, & Xiao, 2010).

This research is predicated on the institutional strand of literature owing to the fact that scholars recognize its ability to integrate social complexities (Djelic, 2010). In fact, by taking into account all elements embedded in the context, such as economic rules, social actors, institutions, organizations as well as behaviours, it allows for a fine-grain examination linking systems with business realities (Whitley, 2006). Consequently, we seek to understand the degree to which HRM practices of a MNE are impacted by local business systems in transitional periphery economies as opposed to an advanced economy. This comparative in-depth case study focuses on HRM implemented by a sample of five hotels of the same luxury MNE chain, namely one in Azerbaijan (Caucasus), one in Kyrgyzstan (Central Asia) and three in Germany.

Research variables are defined using core dimensions of work and employment relations identified by Whitley (1999); on the one hand, there is the degree of employer–employee interdependence while, on the other, employee delegation. These indicators are useful in examining comparisons not only in how the application of HRM by a MNE tends to be similar or different among the three countries under consideration, but also in highlighting any convergence or divergence in practices (Brewster, Wood & Brookes, 2008).

This study brings to bear new evidence from a strikingly unexplored category of emerging markets, while addressing the hospitality industry that, together with banks, are among the first movers in new economies. As contended by Zhu, Eden, Miller, Thomas and Fields (2012), this “first wave” (p. 146) of investors into emerging host countries consists of developed market MNEs, which is the category the MNE analyzed in this paper belongs to. In sum, our research objectives are two-fold:

- (a) To illustrate the application of HRM policies and practices by subsidiaries of a luxury hotel MNE located in two transitional periphery countries according to the two core dimensions of work and employment relations identified by Whitley (1999).
- (b) To identify points of convergence and divergence in the application of HRM in transitional periphery countries as opposed to subsidiaries of the MNE located in Germany.

The balance of this paper revolves around an overview of the theoretical foundation upon which this research is predicated, the multiple case study methodology followed in the research, the findings, and the conclusions and implications of the research.

2. Theoretical background

2.1. HRM implementation by hotel MNEs

According to the World Travel & Tourism Council, tourism rates among the world's largest employers by number whereby its share of global employment is “greater than that for the auto manufacturing and chemicals manufacturing industries combined, across every region of the world” (WTTC, 2013, p. 63). Nonetheless, there is alarming dearth of scholarly research on HRM applied in the tourism industry (Solnet, Kralj, & Baum, 2013) with particular reference to businesses operating in emerging economies (Law, Leung, & Cheung, 2012) and next to nothing in transitional periphery ones. As a sub-sector of tourism, the hospitality industry represents “the most visible component of the tourism economy” (Zampoukos & Ioannides, 2011, p. 26) that critically depends on its people to deliver (Baum, Amoah, & Spivack, 1997; Kusluvan, Kusluvan, Ilhan, & Buyruk, 2010). Owing to its global presence (Littlejohn, 1997), it is imperative for the industry to be consistent in order to maintain brand power and penetration across geographic locations. Yet, there is the need to adjust to local demand peculiarities founded in national markets and environments. For luxury hotel chains, the emphasis on quality is of utmost importance and, therefore, HRM plays a strategic role in strengthening this vision within the organizational contextual sphere (Maxwell, Watson, & Quail, 2004).

As the hospitality industry is focused on providing service excellence in competitive and varying business environments (Dubéa & Renaghanb, 1999), luxury hotel MNEs are concerned with building and fostering a solid customer-centric service culture throughout their workforce on a global scale (Teare, 1995). To this end, Colakoglu, Tarique and Caligiuri (2009) highlight that strategic subsidiary staffing choices should be viewed in terms of knowledge transfer and expatriate integration regardless of whether they are parent-country nationals (PCNs), host-country nationals (HCNs) or third-country nationals (TCNs). In their study on Eastern European transition economies, Jindra, Giroud and Scott-Kennel (2009) highlight the importance of MNE knowledge and skill diffusion towards its subsidiaries. Lewis (2008) further indicated that one of the most critical contributions of MNEs to their subsidiaries involves training and developmental opportunities offered to the locals while instilling the meaning of productivity and quality. Consequently, efforts towards a coherent international presence such as “balancing both global integration and local responsiveness” (Caligiuri & Stroh, 1995, p. 495) lead a hospitality MNE to embrace HRM according to a strategy that Perlmutter (1969) labels as “geocentric”. This is attained by MNEs giving critical importance to consistent world-class organizational superiority based on efficiency and effectiveness irrespective of the nationality of managers who run the subsidiaries (Muratbekova-Touron, 2008; Tung, Paik, & Bae, 2013).

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