

**Multinational Human Resource Strategies and Host Country Effect:  
The Influence of Domestic Government Policies**

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### ***Introduction***

Over the last decade there has been an emerging literature on the human resource management (HRM) strategies of multinational corporations (MNCs). Much of this literature has focused on distinguishing between different types of MNC strategies and identifying the factors that have influenced the adoption and implementation of these strategies (Marginson, 1994; Welch, 1994; Ferner, 1994, 1997; Dowling et al, 1999).

One influential category of factors that has been highlighted is the issue of the domestic environment, often referred to as the “host country” effect, with attention being paid to the influence of such variables as local culture, and legal, social, economic, and political systems (Beechler and Yang, 1994; Dowling et al, 1999). However, the role of these influences has been relatively little explored. This is particularly true with regard to the way in which the HRM strategies and policies of multinationals are influenced by regulatory and other governmental policies in cases where they are acquiring subsidiaries in developing economies (Florkowski and Nath, 1993; Lawler et al, 1995; Arthur et al, 1995).

This lack of attention is striking given that: (a) in the developing world much of the MNCs’ involvement is occurring through privatisation (UN, 1993, 1997); and (b) in developing countries, human resource practices must frequently be consistent with the national development plans that have been prepared by planning authorities (Florkowski and Nath, 1993).

The present paper consequently seeks to address this gap in the literature. It does so through the utilisation of case study material to explore the ways in which the Jordanian government sought to influence the HRM strategies and policies of two French multinationals which had taken over privatised undertakings.

The paper is divided into five main sections. First, the literature on the “host country” effect will be briefly reviewed. Secondly, background information on the privatisation process in Jordan and the economic and political factors underlying it, is provided. Thirdly, the research methodology utilised is explained. Fourthly, each of the case studies is then outlined, along with their significant findings. Finally, the concluding section will draw together the key points arising from the preceding analysis and consider their implications for the wider literature on the HRM strategies and policies of MNCs.

### **The Host Country Influence**

A number of studies suggest that the host country’s legal, cultural, social, economic and political environment are major external factors which have an impact on MNCs’ approach to the management of labour (Dowling *et al.*, 1999; McGaughe *et al.*, 1997; Beechler and Yang, 1994). In doing so they suggest that, despite the growing phenomenon of globalisation and the international economy, the nation state continues to exert sovereignty over its people and territory (Hirst and Thompson, 1996). Accordingly, it has been argued that MNCs are faced with a “think global”, “act local” paradox (Dowling *et al.*, 1999). That is, while multinationals are pursuing global expansion and integration, they are forced to be responsive to the demands in each area in the countries and regions within which they operate (Doz, 1986).

A number of studies have lent support to this view. For example, Buckley and Casson (1991) argue that although Japan has successfully exported work practices to the United States (US) and Europe, U.S. and European MNCs operating in developing countries have failed in their attempts to do so because they have lacked appreciation of their culture-specific attitudes to work, rewards, authority and management-labour relations (cited in Dunning, 1993). In a similar vein, Tayeb (1994) claims that while Japanese MNCs have succeeded in transferring some practices such as single-union agreements and zero-rate reject to their subsidiaries, they have not implemented successfully other practices like quality circles and just-in-time, especially in the West. Similarly again, Lorenz (1993) has noted that performance-related pay is much more acceptable in Anglo-Saxon business cultures, than in France, Germany or Italy, where there is

resistance to the idea ‘that individual members of the group should excel in a way that reveals the shortcomings of other members’ (cited in Ferner, 1994). Researchers additionally suggest that the greater the cultural distance between the home and the host country, the harder it will be for the multinational to transfer home country philosophies and practices (Ferner, 1997).

The literature also suggests that the type of government policies and the nature of legal and labour market conditions influence MNCs’ strategies and policies by either encouraging or impeding certain industrial relations practices. For example, in a developing country, a host government may dictate hiring procedures, as in the case of Malaysia in the 1970s when the government made it mandatory for all foreign firms to provide additional employment for the indigenous Malays (Dowling *et al.*, 1999) and with the current policies in Saudi Arabia and the Philippines where indigenous employment quotas of 75 and 95 per cent have been imposed respectively. Furthermore, and more generally, Florkowski and Nath (1993) have drawn attention to the need for MNCs to put in place HRM practices, which are consistent with national development plans that have been prepared by planning authorities in developing countries.

In general, the evidence suggests that MNCs are good at respecting local employment practices (Dunning, 1993). On the other hand, although many researchers claim that MNCs provide better working conditions than other firms in the same industry or other local firms, there is evidence that MNCs use less regulated economies to introduce labour practices that are less acceptable in their country of origin. For example, in several European countries, particularly Germany and Austria, workforce representation in the company, legal rights of consultation and co-management in specific areas are of prime importance. Conversely, in Britain there is no obligation to recognise unions or establish structures of employee representation with the result that MNCs from more regulated economies have the option to set up subsidiaries without any workforce representation. Thus, it is argued that such “permissive” institutional and industrial relations frameworks allow MNCs to be more susceptible to other factors in the business environment, which influence corporate behaviour, such as the industry sector, production technology, regional business culture and the local labour market (Ferner, 1994, Marginson and Sisson, 1994). Moreover, developing countries, in general, tend to have cheaper, less organised and fewer labour laws than developed countries, and government regulations

are less common (Dowling et al., 1999) with the result that MNCs have a larger degree of manoeuvre in applying the practices most convenient to them.

### **Privatisation in Jordan: Background**

Since its inception as a state in 1921 Jordan has suffered from a variety of economic problems stemming from a number of factors: limited natural resources; export concentration in terms of the limited variety of exports and destinations; dependence on external financial aid and remittances from Jordanians working abroad; perennial instability stemming from the various crisis that have affected the Middle East region during the past five decades; and the nature and limitations of economic planning. These factors have resulted in a chronic trade deficit in the balance of payments, increased the vulnerability of the Jordanian economy to external regional and international economic and political developments, diverted the country's limited resources to military expenditures, and made it highly dependent on foreign assistance.

Nevertheless, during the 1950s the Jordanian economy succeeded in establishing a number of large industrial projects during the period from the 1950s. Furthermore, the period 1973-1980 marked a new era within the history of Jordan's economic development due to the high levels of investments made as a result of increased financial aid; growing external demand for Jordanian labour and subsequent rise in remittances from abroad; and favourable trade conditions in the wake of the oil boom in the Arab Gulf states. However, the unprecedented economic growth that Jordan enjoyed during these years came to an end by 1983 as a result of the economic recession in the Gulf States prompted by a fall in oil prices and related declines in remittances from Jordanians, exports and external financial assistance. These negative effects on the Jordanian economy were compounded by the new wars in the region, particularly, the 1980 Iraq-Iran War. In response to this situation, Jordan resorted during the period 1982-1985 to short-term borrowing to meet its expenditures and in 1986 identified privatisation as a means to generate revenue.

The economic situation, however, continued to deteriorate. In large part this was due to a continuation of the adverse effects of the same factors. The impact of these was, however, compounded by the termination of the ten-year commitment of the Gulf States

to aid Jordan economically. As a result, to maintain consumption at a bare minimum, the government approved increasing budget deficits and increased its borrowing to the point that, in 1988, the external debt rose to \$6,444.6 million and the external debt service reached \$1,301.4 million. Consequently, by 1989 Jordan faced economic crisis as it was unable to pay its external debts, which constituted 180% of GDP, its reserves were wiped out, the country's currency was devalued by nearly 35%, and inflation reached 25.8%.

Against this background of economic crisis, Jordan embarked on an economic reform programme in 1989 with the aid of the World Bank and the IMF to rein in the fiscal deficit and rebuild the reserves while liberalising the exchange rate. The plan also aimed at restructuring the economy at both the macroeconomic and sectoral levels in order to enhance growth, productivity, and efficiency of the economy. More specifically, the World Bank and the IMF agreed to extend financial assistance to Jordan in return for specific structural adjustments and reforms. However, Jordan had to adopt an amended economic adjustment programme for the period 1992-1998 after the suspension of the first one as a result of the Gulf War in 1991, which led to the loss of aid, oil and exports, deprived Jordan of its major trading partner Iraq, and reduced the employment opportunities for Jordanians in the Gulf. Under this amended programme the World Bank and the IMF are offering support in four main areas: privatisation, trade liberalisation, financial sector reform, and regulatory reform.

In light of the above adjustment programme, Jordan developed a new Economic and Social Plan for the period 1993-1997 which designated a major role for the private sector and confined the role of the government mostly to infrastructure-related projects that are essential for stimulating private investment. Accordingly, the government initiated a privatisation programme in the early 1990s and started to open up some of the sectors previously closed to the private sector. Progress on implementing this privatisation programme was, however, initially very slow due to a number of factors, notably a lack of political consensus and strong central direction, fear of the negative impact of privatisation on employment and prices, and the limited absorptive capacity of the Jordanian financial market.

Consequently, the World Bank published a report in 1995 in which it urged the government to speed up the privatisation process. Accordingly, in 1996 the government

announced its privatisation programme and developed an initial strategy, which specified the shape and scale of privatisation, the mechanisms to implement the programme and the methods through which privatisation should occur. This privatisation programme is being implemented in two phases and so far six out of the eight major privatisation transactions identified in the first phase have been concluded. In addition, progress is being made in respect of the remaining two and steps also have been taken to start implementing the second phase of the privatisation programme.

### **Research Methods and Case Studies**

A longitudinal, multiple-case design was considered to be most appropriate for the study, which aims to examine multinationals' human resource strategies in privatised Jordanian companies. An initial review of the literature contributed to the formulation of the research questions and helped the investigator to specify the kind of organisations to be approached and the type of data to be collected.

The primary research tool was the in-depth semi-structured interview. The main reasons for taking this decision were three-fold. First, the privatisation operation in Jordan is a sensitive issue and there was a consequent likelihood that many managers would be reluctant to reveal information or disclose their opinions freely. The face-to-face, one-to-one interview was considered to provide a means of minimising this problem. Secondly, the decision-making process within multinational companies is highly complex and the factors influencing these decisions are interdependent and interrelated. Thus, it was considered that semi-structured interviews would provide the depth of data required to adequately understand and interpret these complex processes (Hedlund, 1981; Ferner and Quintanilla, 1998). Finally and relatedly, as this is a longitudinal study, interviews were perceived to provide the best method of gaining meaningful insights into developments and the factors underlying them.

The first phase of the study involved gathering data on the human resource strategies and policies of the selected companies before or immediately after privatisation to establish a baseline for tracing changes over time, unfold any recent changes in preparation for privatisation and provide predictions about potential changes after privatisation. This

data was obtained through interviews with government officials and senior managers and human resources specialists in each of the selected companies.

The second phase of the study involved collecting information on the changes that subsequently took place in human resources strategies and policies after privatisation and the reasons for these changes. Hence, interviews were conducted with case company directors, senior managers, finance managers, HR managers, and departmental managers to facilitate data triangulation and obtain different perceptions of the same phenomenon. The interviews with the HR directors and managers mainly covered the following: HR function, HR policies such as recruitment and selection, training and development, performance appraisal, rewards, work flexibility, communication and worker participation and industrial relations. Most of the interviews were tape-recorded and transcribed and, on average, lasted one and a half hours.

The information gathered from the semi-structured interviews were supplemented by documentary evidence such as annual reports, in-house journals and news letters, official company histories, organisational charts, official policy statements, and corporate Web sites. The purpose of using the documentary evidence was two-fold. First, to crosscheck the data obtained from the interviews. Secondly, to use any discrepancies in the information to identify possible new lines of inquiry.

### **Water Co.**

The Water Authority of Jordan (WAJ) is the main body responsible for the supply and distribution of water and wastewater services to the whole kingdom of Jordan and consists of twelve geographic water divisions. On 19 April 1999 the Jordanian government signed a water management and wastewater treatment contract for the city of Amman and its outskirts (former Amman Governorate Water Authority of Jordan – AGWA) with a consortium led by a French MNC – Water Co. Under this contract, the operator was granted a four-year license to manage the distribution of water without loss of government ownership or control.

Water Co. took over the management of the company on 31 July 1999. Subsequently, changes have been introduced across the whole field of human resources management.

Here, attention is paid to the changes made in the following areas: the structure and role of the HR function; training and development; and rewards.

### *HR Function*

In the former AGWA civil service regulations were applied. The personnel section head was responsible for personnel issues and was assisted by three clerks, who mainly performed administrative jobs. Decision-making was very centralised and everything had to be referred to the Secretary General of the Water Authority at the Ministry of Water and Irrigation. Thus, the new personnel manager (a former AGWA employee) observed that: *'before we had to refer everything to the secretary general even if we wanted to punish an employee or give him a permission to drive a car'*. Similarly, the HR manager (another former AGWA manager) stated that:

*'there was nothing called HR in AGWA before. There was no health and safety, no training, no payroll, and no database. The personnel section was very weak and all the dependence was on the centre'*.

When the new management took over HRM became part of the company's overall strategic plans and an experienced British senior director from the parent company, who is a member of Water Co.'s executive board, was appointed head of the HR division. By August 2000, the number of people working in HR had increased from four to eleven people, a personnel database had been set up and a number of new sections within the HR division had been created covering issues such as health safety and security, training, payroll, and personnel.

However, it should be noted that the WAJ required the company to establish a HR division and a computerised database. It should also be noted, for the purposes of the discussion below, that the government further imposed a number of other conditions notably that the operator retained at least 50% of the employees who were seconded to it and submitted a comprehensive employment policy.

### *Training and development*

In the former AGWA, as mentioned earlier, there was no training department. What existed was a central training centre for the whole of the Water Authority that provided some technical, language and computer training. In addition, there was some external training provided by local institutes. However, not everybody attended these training courses and the training expenditure was only around £3.00 per employee. In addition, overseas training was linked to the availability of external funding in the form of donations and aid from other countries such as Japan and was limited to a very few senior managers. Thus, the HR manager said: *'almost no training existed in the organisation'*. A view later confirmed by the training manager.

When Water Co. took over the management of the company it had several contractual obligations. More specifically, in the first year, it was obliged to deliver the following: to train 50% of the employees on safety; to train 100% of customer service employees; to familiarise all senior managers with modern European management techniques and send them at least once, over the four year period of the contract, overseas; to select replacements for the expatriate managers at a very early stage and to inform WAJ what training the replacements would receive; to submit a comprehensive training and development plan by the end of the first month of the contract; and to submit a monthly report which included all details relevant to training such as the number of staff trained, the number of training hours delivered, the number and type of training courses provided, the training spending against the budget, and the estimated costs and details of the training to be held in the subsequent months.

To fulfil its training obligations, Water Co. created a training department, appointed a new training manager, established a training centre that cost around £11,000 and set up a separate training budget amounting to, approximately, £84,000 in the first year.

Both the training and HR managers confirmed that training had increased dramatically under the new management and that the training expenditure had increased from £3.00 to £65.00 per employee in the first year. This increase, in part, reflected the fact that training and development was seen to be essential for the new management and echoed

the parent company's policy on training and development. For example, the HR director stated:

*'WJA are offering about 2% of what we are offering per employee in terms of training but that's because the parent company is very training oriented. We believe that training is the success of the organisation and it is going to be a good part of my job.....Training and development will be a major part of our appraisal system.'*

The HR director, the HR and training managers all confirmed that Water Co. aims to train every employee in the company and will continue training over the four years of the contract. In particular, it was indicated that training would be provided with regard to management and supervisory development; skills development; and safety. It was also made clear that Water Co is committed to training and preparing local staff to take over in the future. For example, the HR director has appointed internally a HR manager and is training him to take over in two years time.

As part of these growing training activities, the company also took steps to send a number of staff overseas for training. For example, the deputy executive director (AGWA's former administrator) was sent to the UK and France for three months for training. In France he was trained at the corporate headquarters and in the UK he worked with British managers at the parent company's UK headquarters to see how it operates in the UK and also to see the differences between British, French and Jordanian operations. Similarly, five senior managers in the first year attended an international conference held by the parent company at which managers from all the parent's subsidiaries met to hear about the company's policies and strategies; the safety manager was sent to the UK to attend a training course for three weeks on health and safety; the HR manager was sent to the UK to attend an educational course at a British University that contributes towards an MA degree in human resources; and two staff members who are not senior managers went to the USA, one to attend a training course and another to attend a conference.

Nevertheless, almost 99% of the first year's training was held in Jordan. Of this, 80% consisted of external training, delivered by local consultants, and 20% comprised internal training. Some of the internal training however, was provided by experts and training specialists from overseas, including from the parent company.

A number of further training activities are planned. These include the introduction of an orientation period for new employees and the provision of training and development courses for all managers and supervisors. They also include courses about customer service, teamwork, empowerment, motivation, the parent company's culture and a fast track training programme to train people who are capable of becoming top line managers in the future. In conjunction with this, the company has also recently implemented a new graduate training programme.

The HR director and the HR and training managers work with other managers in the organisation to identify and assess training needs and subsequently to prepare the training plan and budget. Compared to the first year's budget, which consisted of only one figure for training within Jordan, the second year's budget included two figures one for domestic training and another for overseas training. A further change that was reported by the training manager was that a more systematic approach was now hence adopted towards the identification and assessment of training needs with the objectives of providing professional development and personal motivation to the employees. On the other hand, care needs to be taken into consideration not to exaggerate the degree to which the present training activities are strategically oriented because the same training manager subsequently went on to observe that:

*'There is no strategic planning as we take it year by year because Water Co. has a four year contract. However, the change will depend on the performance of the company, which will be evaluated by the auditors in August 2000. Water Co. might extend the contract but that will depend on their performance.'*

### *Rewards and Benefits*

In the former AGWA, employees' basic salaries, allowances and benefits were set by civil service regulations and the average salary of an employee was around £200 per month. In an effort by the government to maintain social justice, fairness and equity among the employees who would work for the new company and their counterparts in the rest of the industry, WAJ imposed conditions in the management contract which limited the salary increases of the seconded employees to 10% and specified that this increase could not be consolidated into the employees' salaries. Moreover, the salaries of the newly appointed employees, mainly recruited from the local labour market, had to be

approved by WAJ as they will be paid by WAJ from a special account linked to the World Bank's loan.

In respect of these conditions, the new management in Water Co. suggested that 10% would not be sufficient to motivate the employees. Indeed, the HR director, in frustration and anger, made the following the observation:

*'what it says in the contract a maximum of 10% increase per employee. This means that even if you want to promote a particular employee you can't because we can only give 10% and this 10% will be in the form of an allowance, it is not consolidated in his salary as he loses this 10% when he goes back to WAJ.'*

As a result of these concerns, the company proposed two pay schemes to the government and subsequently one of these was approved. Under this scheme, provision is made for three forms of bonus: a fixed bonus of 10% to all of the employees which is dependent on the company's performance; a quarterly variable bonus up to 25% which depends on the individual's performance; and a fixed bonus for senior managers of 25%-65%. These bonuses cannot, however, be consolidated into the basic salaries because the seconded employees do not belong to Water Co. It should also be noted that the employees continue to receive their annual increments and allowances from the government.

### **Telecom Co.**

Telecom Co. is a large company in Jordan that employs around 5,000 people. The company was a state department headed by the minister of Telecommunications and had a monopoly in the Telecommunications industry until the end of 1996. In 1995, the government implemented the telecommunication's restructuring programme and introduced a new telecommunications law (Law No. 13), which led to the establishment of a regulatory body to monitor the industry, and provided for the corporatisation of Telecom Co., as a first step towards its privatisation, and the creation of competition in the sector. However, Telecom Co. retained the exclusivity of the fixed lines services until the end of 2002. Subsequently, on 1 January 1997 Telecom Co. was registered as a public limited company that was wholly owned by the government and worked on commercial basis.

In 1997/98 the government adopted a strategy to sell 26% of Telecom Co.'s shares to a strategic investor. However, the privatisation of JTC was delayed for almost three years during which time the government changed its sale's strategy for two main reasons. First, 26% ownership was found not to be sufficient to attract foreign investors and therefore, the government increased the percentage of shares to be sold to 40%. Secondly, the government decided to sell to a consortium that consisted of a foreign partner as well as a local partner, due the parliamentary opposition to total foreign control.

Eventually, on 23 January 2000 the government sold 49% of Telecom Co. as follows: 40% of the shares were sold to a consortium led by a French MNC as the technical/strategic partner (35.2% to the French MNC and 4.8% to a local partner); 8% to the Social Security Corporation; and 1% to the Saving Fund of Telecom Co.'s employees. Subsequently, a new board of directors was formed that consisted of four members representing the government and three members representing the consortium. In addition, the strategic partner was awarded a five-year renewable fee based management contract to manage the company, and improve its services and performance. Subsequently, an executive operating committee of six members, mainly from the French parent company, was appointed to manage the company and set its strategies and policies.

After privatisation the new management instigated some changes, which included: the implementation of huge projects and new investments; the introduction of new services; the development of a new communications plan, the design of a new mission statement and a new logo; and the evolution of new business strategies and policies. In addition, a number of changes have been introduced covering all aspects of human resources management. For the purpose of this paper, attention is focused on the changes made to the HRM function, staffing, training and development and rewards and benefits.

### *The HRM Function*

In preparation for privatisation eight divisions were created and four layers of management were set up starting with the director general, eight director general deputies, managers and section chiefs. The HRM function was placed within the corporate services division and was represented by a deputy director general who

reported to the director general. However, HR had no representation on the board of directors. Later, the corporate services division came to consist of seven departments including HR and training with a manager heading each department and reporting to the corporate services deputy director general. The HR part of this division dealt with recruitment; appraisal; salary administration; manpower and succession planning; promotions and transfers; disciplinary matters; administration of employment terms and conditions; liaison with operational units; and maintenance of the employee database. The training services were responsible for the design, delivery and evaluation of technical, management and computer applications for all of the employees.

Since privatisation the HRM function has been strengthened, and a HR division has replaced the corporate services division. This division is currently headed by a Human Resources Officer, who is a member of the executive operating committee and reports directly to the chief executive officer. The HR division itself now consists of seven departments including manpower and training departments and a manager responsible for each department.

The changes introduced have had strong implications for human resources management. Thus, the Chief Human Resources Officer said: 'we are trying to update HR to be compatible. In particular, we seek the development and mobilisation of HR. Now the customer is our manager. We have to develop the company and prepare ourselves for competition.' More specifically, a range of new HR policies were introduced and others were still under development at the time of the interviews (six months after privatisation).

In seeking to implement those changes the company's philosophy has been to adopt a relatively gradual approach in order to avoid adverse effects on employees. This is illustrated by the following observation from the HR manager: 'they don't want to make sudden changes because it affects the employees and the HR department is important because all the employees resort to it.'

## *Staffing*

In 1997 and in preparation for privatisation, all Telecom Co.'s employees who were subject to the social security scheme were made company employees with new contracts whilst other employees, who were subject to the civil service state pension, were transferred to the ministry of the post and communications and seconded to the company. At the same time a new recruitment and selection policy was implemented based on revised job specifications. In general, during this period the company placed a freeze on recruitment and only a few new recruits, notably engineers, were appointed.

The objective of the human resources planning was to increase efficiency by reducing the number of employees employed per 1,000 fixed lines. For example, in 1996 there were 13 employees for every 1,000 lines and in 1999 this figure decreased to 9 employees for every 1,000 lines and it was planned to reduce this number further to 6.5 employees for every 1,000 lines in the year 2005. Indeed, these efficiency objectives effectively formed the core of the HR strategic role. Consequently, overall the function of HR continued to fulfil an essentially reactive approach. The corporate services deputy director general illustrated this as follows:

*'it is a reactive role. They specify the policy, for example, for the year 2000 that the number of employees should be eight for every 1,000 line, so the HR works accordingly. Through displacement, we don't put 100% work force as the trend is a decrease in the number of employees'.*

After privatisation, the new owners continued to seek efficiency gains. For example, it was aimed to reduce the number of employees per 1,000 lines to eight. However, a rather more strategic approach has been adopted to staffing issues as only people with the right qualifications, relevant experiences and training courses were recruited. At the same time, however the government imposed a condition on the new company that as of 23 January 2000 no employees would be dismissed or made redundant for two years. Nevertheless, after privatisation, the recruitment policy became more functional. Thus, people were recruited according to the new job descriptions and the company concentrated on the recruitment of qualified people who had the ability to run the new

projects and investments being undertaken by the company. As a result, specialised people were recruited in each section from the local market as well as from all over the world. This new approach to recruitment was described by the administration manager on the following terms:

*'their policy with regard to recruitment and selection is "in" and "out". "Out" in the sense that they intend to get rid of the people they don't want and "in" means that they are very strict with recruitment in terms of qualifications. Currently, you can say that recruitment through connections has ended. So if I appoint two people without the proper exams this will be discovered and now the HR manager should know the number of employees by the end of 2001.'*

The recruitment of qualified people was supported by a policy to move existing staff internally from one function to another and by delivering the necessary training for them. The Chief Sales and Marketing Officer explained this strategy and said:

*'we are facing here a situation similar to what we faced in France twenty years ago. So what we are doing here like what we did in France.. We have the same issues to solve...First, for the technical part we need to improve the networks... and then we need to move people from a technical orientation to a sales orientation to be able to face the competition.... One of the main strategy decisions of the parent company, in terms of human resources and globally, because of the impact on the company, is not to decrease the staff of the company. The parent company before and after privatisation in France has retained the same staff...in fact we added staff..... We didn't make plans to reduce people, we made plans to move people from one sector to another, from technical to sales and we have the same objective here...In France it was a political issue. In Jordan, the condition is to retain the employees for two years but these things you plan them for more than two years. So in the first two years we do not have a choice but after that we can choose. We are going to follow the same direction after two years as in France, not to divide the number of staff by two but to develop the business and to adapt the people to be able to face different challenges. We have this principle that we can train the people and improve their skills'*

The processes of enhancing staff competencies were further supported by the use of permanent expatriate staff. For example, four members of the executive operating committee were French expatriates from the parent company. More generally, the sales and marketing chief officer noted that:

*'the company's policy is to have permanent people from the parent company working in Jordan. Others with special expertise come on short-term basis from one to six months.'*

At the time of the interview, there was around eight permanent French staff from the parent company, including members of the executive operating committee, and fifteen

experts on short-term missions. Nevertheless, it should be noted that the use of expatriate staff was limited in two ways. First, the government required that at least two members of the executive operating committee to be Jordanian. Secondly, concerns about political and media back-clashes acted to restrict the number of expatriates to be employed. In relation to this second influence the media manager observed:

*'they take care about the public opinion and they take into account the criticisms. Thus, they say we shouldn't have large numbers of the French in the company. The people should not feel that we are going to take their positions and jobs.'*

### *Training and development*

In 1997 new training policies and programmes were developed to change the employees mentality and attitudes to work. As a result, the training budget was increased and intensive training courses were implemented particularly in the customer care and customer services areas. The majority of this training was held at the training centre owned by the company.

After privatisation, the recruitment of the right people and the training of existing staff were seen as crucial to the implementation of the changes required by the company to achieve its business objectives. Thus, the HR executive observed that:

*'the company is emphasising training to build the capabilities, which can organise and execute the new company's strategies and policies'.*

Similarly, the marketing executive observed that:

*'the market is expanding and the company is making huge investments. We need to change the way people think and manage because the change in the way the people are managing is very important and we need the right people to manage this change effectively. We need to recruit people from outside, train existing staff and move staff internally from one function to another.'*

In addition, according to the agreement with the government, the strategic partner was to provide training to employees, especially in management areas such as administration, financial systems, customer services, sales and marketing and business planning.

After privatisation, compared to the previous year's training budget, the training budget increased by 60%. The proportion of training held externally and overseas had also

increased. For example, senior and middle managers were sent to France for training including the training manager. In addition, in September 2000, a training expert was brought in from headquarters in France in order to design a new training policy and to develop new mechanisms for training in the company.

These changes also reflected the importance that the parent company, more generally, places on training. This was highlighted by the sales and marketing executive in the following terms:

*'the parent company emphasises training and considers it to be very important especially when you manage this kind of change. For example, as I recall, one of the objectives of the parent company two or three years ago was to move 10,000 technical people to sales in one year and every month they were following up this number to make sure that we are reaching this objective.'*

### *Rewards and Benefits*

Before the corporatisation of Telecom Co. the employees were subject to civil service pay scales. Annual increments were automatic and promotions were based on length of service and seniority. On 1 January 1997, and in preparation for privatisation, all the employees received a 10% increase in their salaries and they became entitled to 13<sup>th</sup> and 14<sup>th</sup> months' salaries. At the same time, there was a move away from the payment of increments on the basis of length of service and seniority to performance-related increments. A new salary structure, which allocated the jobs to a point on the salary scale on the basis of their value to the organisation, was also prepared by the external consultancy but was not implemented.

After privatisation, in March 2000 a new pay scale was introduced which was based on the job not the person and the main criteria were qualifications and experience. The HR executive stated the following:

*'The pay scale and increments have been determined based on the job. Also they were based on the marketing survey conducted. Experience and education are the only parameters.'*

To implement the new pay scale employees were divided into four categories. The first category consists of higher management, senior positions, department managers and

experts. The second includes specialist jobs, engineers and employees with a university degree and above. The third encompasses technical jobs and administrative jobs and people with a diploma or GCE. The fourth category consists of workers, daily workers and people in supportive services.

The new pay scale was applied in three stages. First, in April 2000 all company employees received a 3% increase in their gross salaries. Secondly, in June 2000 the new salaries of the third and fourth group were introduced, these ranging from approximately £150 to £350. Finally, in August 2000 the pay scales for the first and second groups were introduced. If according to the new pay scale an employee would receive a lower salary than before, it was provided that he or she would continue to receive the higher salary. In addition, all employees were still entitled to the 13<sup>th</sup> and 14<sup>th</sup> months' salaries. However, promotion was based on suitability for the vacant post rather than seniority.

However, it must be noted that under the new pay scale only people with qualifications and relevant experience have received high increases in their salaries. In contrast, people without qualifications received no more than a 3% increase. For example, the HR manager stated that:

*'Some people have benefited from the new pay scale, some got an increment of 200-300 JDs while others have not benefited at all according to the job. For example, a telephone operator hasn't got a career path or job progression'.*

However, at the time of writing it is understood that the company is working on a whole new reward strategy.

## **Conclusion**

This paper has utilised two case studies to demonstrate some of the ways in which the Jordanian government sought to influence the HRM strategies and policies of MNCs taking over the control of privatised undertakings. In one of the organisations, Water Co., it has been shown that the government exerted a lot of influence, laid down many conditions and intervened heavily in the HR strategies and policies of the MNC. On the other hand, a different picture has emerged from the second company, Telecom Co.,

where the government has intervened to a lesser extent in the HR strategies and policies of the company.

More specifically, in Water Co., the government laid down the following conditions: the submission of a new employment policy that covers all aspects of human resources management; the establishment of a HR division and an employees' database; the provision of a comprehensive training plan; the retention of at least 50% of employees; and a requirement that action be taken to ensure that local managers were developed to replace expatriate managers. In addition, the government has imposed a limit on the salary increases of seconded employees and has retained a right to approve the recruitment and salaries of new employees from the local labour market. At the same time, the study has also revealed that these conditions were the subject of a process of ongoing negotiations between the government and the new company – a process illustrated by the introduction of a new bonus scheme and the approach adopted towards staffing. The fact that policies and budgets had to be approved by WAJ has, actually, facilitated this negotiation process and allowed for amendments to the contract.

From the evidence provided, it is possible to conclude that the government has influenced both the staffing and reward policies of the company. For example, the fact that the company couldn't lay off employees meant that it could not reach the industry's ideal number of employees and had to find ways to utilise the "surplus" employees. Similarly with rewards, the company could not introduce a new pay scale and had instead to give bonuses that were not consolidated into the basic salaries.

The position with regards to government influence over training and development is rather less clear. Training and development was a very important condition in the management contract. For the government, the training of managers and the employees was very crucial due to the lack of local managerial expertise and a desire that local people should be able to run the company at the end of the contract. At the same time, training and development was also seen by the parent company as crucial to the company's success and the achievement of its business objectives. Thus, it is a moot point how far the government's condition on training and development affected the extent and type of training and development provided.

With regard to Telecom Co., it was found that the government gave a freer hand to the new management team than was the case at Water Co. Thus, the main conditions imposed by the government related to the composition of the executive operating committee, a prohibition on the dismissal of employees for two years and a requirement that the new company provided training to employees. As a result, the government did not intervene with regards to rewards and left it to the new management to design a new pay scale – a pay scale which was very much similar to the one proposed during the ‘commercialisation period’ which preceded privatisation.

Consequently, it is clear that the government intervened differently in the two firms. The reasons for these differences can be attributed to the following reasons. First, the privatisation strategy adopted by the government and thus, the mode of establishment and operation of the two firms are different. In the case of the first company, Water Co., it was privatised through the award of a four-year management contract which was financed by a World Bank Loan. This contractual arrangement therefore, provided the government and the World Bank with an opportunity to impose a variety of contractual conditions relating to such matters as performance, staffing, training and development and rewards.

In the case of Telecom Co., the company was privatised through the sale of shares to a strategic partner. Both the government and the new MNC had representation on the board of directors and decisions were jointly taken. Thus, the government had less incentive either to intervene heavily or to lay down many conditions.

Secondly, the two firms operate in different sectors. The water sector is considered to be essential and has political significance for the government. Therefore, government control over it is considered an imperative. On the other hand, Telecom Co. is in the telecommunications sector, which is considered to be a more commercially based non-essential activity. The existence of a strategic partner was considered important to acquire the know how to improve the performance of the company and increase its value so that the government could generate more revenue in the future when it decides to sell the rest of the shares. This has to some extent given the MNC more bargaining power and strengthened its position since it partially owns the company and is also providing revenue to the government. In addition, the government has opened up the

telecommunications sector to competition and by 2002 Telecom Co will lose its monopoly over fixed lines with the result that it is seen as necessary to give the company the freedom to operate on a more commercial and competitive basis.

Thirdly, the legal frameworks relating to the companies are different. In Water Co., the seconded employees are still subject to civil service regulations and pension arrangements. Therefore, the new company is restricted as to what it can do with these employees. On the other hand, Telecom Co. was registered as a company and was operating on a commercial basis prior to privatisation and as a consequence of this the majority of the employees had already been transferred to it and hence were covered by general labour and company laws.

Overall, the findings presented suggest that the existing literature researching multinational HRM strategies does need to pay more attention to the role of government in cases where MNCs are acquiring subsidiaries as a result of privatisation policies, at least in the case of developing countries.

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