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**Factors Affecting the Transferability of HR Policies  
and Practices in Iranian IJVs**

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A thesis submitted for the fulfilment of the degree of  
Doctorate of Philosophy  
in International Human Resource Management.

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## **Acknowledgments**

The eight year journey took me on new paths and helped me revisit and rediscover paths once travelled. The learning continues and for this I thank a number of people who have supported me on this journey.

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Pari Namazie  
Tehran, January 2007

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## **List of Abbreviations**

- IJV: International joint ventures
- MNC: Multi-national corporations
- MNE : Multi-national enterprises
- HRM: Human resources management
- HR P&P: Human resources policies and practices



## **Abstract**

This study draws on the disciplines of human resource management (HRM), cross-cultural management and international business to examine how and why human resource (HR) policies and practices are transferred to international joint ventures (IJVs) in which a multi-national corporation (MNC) based abroad finds a local partner or partners to set up a new organisation in the host country.

The research sets out to identify the degree of influence environmental factors have on the transferability of HR policies and practices to IJVs in a developing country and their effect on HRM. Although the study is based on IJVs in Iran, its scope is wider in that it provides a generic model—ranking the importance of environmental factors on the transferability of HR policies and practices—that can be applied by companies for setting up IJVs in other developing countries.

Iran is used as the transitional country for research partly because the author is an Iranian HR consultant based in Iran, but also because Iran is an emerging economy with potential to increase international business and attract foreign direct investment. Iran is just setting out on the path of HRM, thus providing a significant background for observing transferability.

The research took the form of a qualitative study conducted through a series of semi-structured interviews carried out in two stages. The material gathered from the first stage helped shape the interviews for the second stage. The responses were content analysed to arrive at the results.

The findings from this study show that the role of the MNC and the micro-environment of the IJV are the two most important factors affecting HRM transferability. The macro-environment, comprising national factors and local-partner inputs, ranks third in importance.

As this study is the first to examine a broad host of factors in HRM transferability, it provides a contribution to knowledge about HRM transferability in IJVs in developing

countries. The model ranking the degree of influence of the different factors on the transferability of HR policies and practices in IJVs will assist MNCs and local companies to better plan for IJV relationships and their strategy of HRM transferability in various countries and IJV relationships. The generic model now needs to be tested further in different countries to see if the same factors are seen in different environmental contexts.

# **CHAPTER 1: INTRODUCTION**

## **1.0 Introduction**

As a Human Resource (HR) consultant in Iran, the author frequently works with newly established joint-venture (JV) companies comprising a partnership between a multi-national company (MNC) and a local organisation. In her consulting capacity she has had first-hand experience of the issues that arise from the need to find effective HR policies and practices for such partnerships<sup>1</sup>. The MNC partner has its own established HR policies and practices but faces the challenge of finding those that will be transferable to the local situation. In each new country the MNC enters, the challenge of understanding what HR policies and practices can be transferred without compromising its own established standards arises afresh.

Although companies have been forming JVs globally for over four decades, these issues remain difficult and they become especially so when the international joint venture (IJV) is between a developed and a developing country, an alliance that is now becoming more frequent.

This study draws on the disciplines of international Human Resources Management (HRM), cross-cultural management and international business in order to examine what affects the transfer of HR policies and practices in IJV relationships.

HRM in Iran has not been studied internationally and although the country was a slow starter in this field, it is now beginning to accelerate its development. Iran is also relaxing her policies on foreign investment and is on track to become the world's 20<sup>th</sup> strongest economy<sup>2</sup>. It therefore offers an important example of the development of HRM in a country of transition and of the transferability of HR policies and practices in IJVs.

An extensive literature review reveals gaps in research across the different disciplines under study. Although the literature on IJVs spans four decades, it is fragmented. Literature on HRM transferability is similarly piecemeal and there is insufficient research on HRM in developing countries (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002; Tayeb, 2001). Most of the research in this field has examined the evolution and

internationalisation of HRM in the developed and industrialised world (Fomburn et al. 1984; Hendry and Pettigrew, 1990; Tayeb, 2001; Tyson and Fell, 1986), but how HRM is being established in developing countries and is still a neglected field that is only now gaining more attention by academics (Budhwar and Debrah, 2001).

## **1.1 *The Iranian Context***

Iran has undergone more than two decades of upheaval and change. Since the 1979 Islamic Revolution, major changes have occurred in its socio-economic, political, national cultural, ideological and legal frameworks. Notwithstanding these upheavals and their consequences for the nation, Iran remains an important country in the Middle East. With a population of 70 million, it is one of the largest countries in the region with a highly educated workforce and an abundance of natural resources, including oil, gas and minerals. This wealth of natural and human resources, alongside the country's geo-strategic position, make it a unique economy.

The growing number of MNCs entering the country and setting up IJVs, testifies to Iran's status as an emerging economy. However, they find the challenges of entering Iran onerous.

The economic and political environments with which organisations interact in developing countries can be characterised by two critical factors: an unpredictable future and difficulty in obtaining resources (Triandis, 1984). In response to these issues, organisations adopt coping strategies in the management of their organisations. Management can suffer from lack of long-term planning, vision and goal setting, lack of time management, moderate risk taking and lack of trust in the system, conditions which, in turn, give rise to a lack of trust in personnel.

Among the management considerations for MNCs, key decisions surround HR policies and practices. MNCs have to decide to what extent they can standardise or localise HR policies and practices in the IJV setting.

## **1.2 Aims and Objectives**

The aim of this study is to investigate what factors influence the transferability of HR policies and practices in IJVs in Iran as a country in transition. The objectives for achieving this aim are to:

- 1) identify the factors that affect the transferability of HR policies and practices;
- 2) assess the degree of influence each of these factors has on the transferability of HR policies and practices;
- 3) propose a model of the factors affecting transferability of HR policies and practices that may be used for other developing countries and MNCs entering new IJV relationships.

By achieving these objectives the study will contribute to the body of knowledge on the transferability of HR policies and practices in IJVs.

## **1.3 Definitions**

In order to explain HRM in Iran and differentiate it from personnel management, the author uses the following definition:

*HRM is that part of the management process that specialises in the management of people in work organisations. HRM emphasises that employees are critical to achieving sustainable competitive advantage, that human resources practices need to be incorporated with the corporate strategy and that human resource specialists help organisational controllers to meet both efficiency and equity objectives. (Bratton and Gold, 1999: 11).*

The JV is defined as:

*...any kind of cooperative arrangement between two or more independent companies which leads to the establishment of a third entity organisationally separate from the "parent" companies. (Pfeffer and Nowak, 1976 quoted in; Harrigan, 1986: 2)<sup>3</sup>.*

When one partner is a foreign MNC, the entity is described as an IJV.

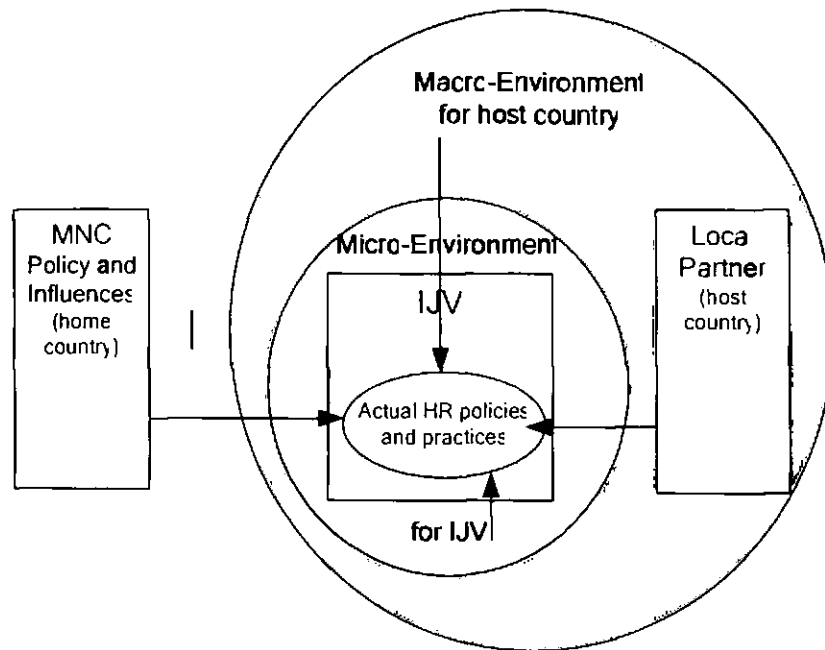
It is important to differentiate between HR policies and HR practices. Schuler et al. (1993) and Tayeb (2000), note that the distinction is qualitative. The important differentiation is that HR *policies* refer to company-wide or global philosophies or strategies and HR *practices* refer to the processes necessary to implement those policies or strategies.

Transferability refers here to HR policies and practices that can be transferred to the IJV, which is assumed to be a new and separate entity. There are two types of transfer to the IJV, standard and local. Standard is where HR policies and practices come from the MNC to the IJV and local is when these are transferred from the local partner to the IJV.

The macro-environment in which the IJV operates comprises national factors. It includes the socio-cultural, economic, political and legal frameworks. For the purposes of this research, the local partner is considered to be integral to the macro-environment. The local partner may be seen as a potential interface between the macro-environment and the IJV in that it embodies national culture and host country's management styles. Included in the host country's management style is HRM, at whatever level of development it has reached. The micro-environment is made up of organisational factors relating to the management of the IJV.

The model below illustrates the relationship between the IJV and the different factors, defined above, which influence the transferability of HR policies and practices. It takes note of external influences emanating from the MNC and its home country. In addition, the model shows how the local partner, as part of the macro-environment, has the potential to bring national culture and host country management styles to bear on the IJV. The resulting micro-environment is unique to each IJV in that a different organisational strategy is created with each one. The unique micro-environment of the IJV, once created, then

becomes one of the major influences on the transferability of HR policies and practices. The micro-environment, in turn, can be further analysed to reveal all the separate factors combined within it that individually influence the transferability of HR policies and practices.



**Diagram 1: Model of the different factors that affect the transferability of HR policies and practices in IJVs**

## **1.4 Structure of the Thesis**

The thesis has six chapters including this introduction. Chapter two examines existing literature on three different topics: international HRM, international business and cross-cultural management. Chapter three describes the research methodology. It shows how the research methodology and strategy was developed, designed and implemented. The author identifies the problems encountered in conducting research in Iran and the solutions to those problems. Chapter four discusses the Iranian context. Chapter five presents an



analysis of the data. This chapter includes a report on the IJVs studied and a report on the findings of the interviews held with the different IJVs. Chapter six draws together the analysis of the findings in relation to the literature and the produced models.

## **1.5 Research Rationale**

With Iran becoming more open to foreign investment, IJVs are growing in number and consequence<sup>4</sup>. This study attempts to add to the knowledge of IJVs, international HRM and cross-cultural management using Iran as a case study and so contribute to a field that has so far been largely neglected by scholars.

The author's own experience as an HR consultant working with MNCs and IJVs in Iran showed that three areas needed to be addressed:

- 1) the issues facing companies setting up IJVs in Iran;
- 2) the influences on the management and the development of HRM in Iran as a country in transition;
- 3) why Iranian managers are perceived to manage differently from managers in other parts of the world and what constitutes this difference in management practice.

By deepening her knowledge of these areas, the author believed she would be able to offer more effective consultancy services to current and future clients. Additionally, her access to IJVs in a climate in which such research is not easily conducted provided a unique opportunity to contribute to research in this field.

## **1.6 Research Methodology**

The author used the following rationale in order to choose an appropriate research methodology: first that the findings of the research would be relevant, practical and

significant to practitioners, HR managers and IJV stakeholders; secondly that the author was starting without any pre-defined models of transferability or concepts of international HRM, therefore the research needed an inductive approach; and thirdly that access to IJVs, companies and individuals would be allowed—management research is not common in Iran and hence companies react to researchers with suspicion. Therefore it was necessary to apply a research methodology which took these sensitivities into consideration.

With this rationale in mind, an ethnographic research methodology based on semi-structured interviews was chosen. The technique used to analyse data was content analysis which classifies textual material, reducing it to more relevant, manageable chunks of data (Krippendorff, 2003). Two stages of ethnographic research were identified. Stage one was conducted using a semi-structured interview template and was in two phases. Phase (a) was to examine the macro-environment in which IJVs are set up (Appendix II is the semi-structured interview template used to collect information on the macro-environment) and Phase (b) was to gain a deeper understanding of management and HRM in Iran (Appendix III is the semi-structured interview template used to gather information on HRM in Iran). The purpose of the first stage was to identify the broader issues faced by companies and individuals in forming an IJV in Iran. Stage one provided the broad themes of significance used to design the interview template for the second stage of research. The information collected in stage one is presented in Chapter four on the Iranian context.

Stage two of the research was conducted in three phases. Phase (a) identified eight IJVs that could be used as case studies for further research. Phase (b) examined the MNCs and their attitudes to the transferability of HR policies and practices to the IJV. Phase (c) was the final interview with the eight IJVs to assess the degree of influence of each factor on the transferability of HR policies and practices from the MNC and/or the local partner. Once again, the analysis technique was content analysis and findings were presented under main themes and headings. In addition to the semi-structured interviews, written documentation—such as company brochures, annual reports, information from websites—on the IJVs was obtained.

## **1.7 Challenges and Limitations to the Research Study**

Although Iran is gradually opening her doors to foreign investment, the number of IJVs the author could study was limited and, to the author's disappointment, access became a critical issue when identifying IJVs to study, especially in the selection of eastern-Iranian IJVs.

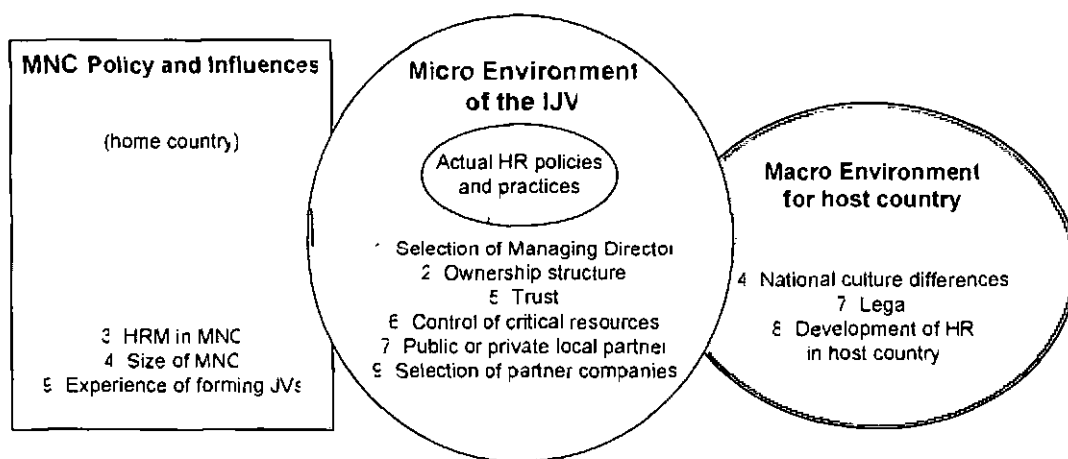
There was more success, however, in contacting and interviewing western IJVs where both the western and Iranian staff were supportive and helpful. The Iranian management teams in these IJVs were almost as open, transparent and accessible as the western expatriate managers. However, in eastern-Iranian IJVs both partners were suspicious and extremely reluctant to even meet with the author. It seemed that the culture of the IJVs was dictated very much by the foreign partner. For these reasons interviews with eastern-Iranian IJVs were not equal in number to western-Iranian ones and this research only has two case studies on eastern-Iranian IJVs compared to six western-Iranian JVs.

Other challenges in the study included the breadth and depth of the research. As this study was inductive, the number of factors which had to be investigated was vast. Some factors went beyond the scope of this research and have been discussed as areas worthy of further research. Managers from different levels and functions were required in order to ensure the data were reliable and valid.

## **1.8 Conclusions**

The three main influences on the transferability of HR policies and practices identified in this study were the macro- and micro-environments and the role of the MNC. The research concluded that the two most important factors in HRM transferability were the role of the MNC and the micro-environment. The macro-environment was shown to be third in importance as an influence.

In the micro-environment the selection of the Managing Director, ownership structure of the IJV, trust, management style of the local partner, control of critical resources and national culture were seen as the crucial factors in the transferability of HR policies and practices to the IJVs. Diagram 2 below represents the ranking of these influences.



**Diagram 2: Model of the degree of influence of the different environments and factors on the transferability of HR policies and practices to IJVs**

In the study the MNCs were seen to be at different levels of growth and internationalisation. This in turn had a direct effect on their HR policies and practices in subsidiaries and IJV relationships. Although all MNCs believed their HRM was strategic, reality showed a different picture. The majority of MNCs professed to use a polycentric approach to HRM in subsidiaries and IJVs, but this seemed difficult to achieve in the Iranian context. The role of HRM in the MNC, the size of the MNC and its experience of forming IJVs in different countries were identified as important factors in the role of the MNC on the transferability of HR policies and practices.

A key finding was that, although the macro-environment was identified as the most important factor in setting up IJVs in research stage one, it was seen as the least important of the three factors in the transferability of HR policies and practices. National culture

differences, the legal system of the host country, the level of development of HRM in the host country, the management style of the local partner, the economic situation and the political situation were identified as important factors in this environment for transferring HR policies and practices.

The research showed no apparent trend for the transfer of individual HR policies and practices. It could not be said that one practice was more local or one more standard, a finding that supported the existing literature, which states that each practice needs to be examined individually (Lu and Bjorkman, 1997; Myloni, et al., 2004; Schuler, et al., 1993; Taylor, et al. 1996). The study showed that IJVs made their choices about MNC standard or local policies and practices according to the influence of the environments.

## ***1.9 Contribution to Knowledge and Scope for Further Research***

This research is the first to identify the key factors in the macro- and micro-environments that affect the transferability of HR policies and practices in Iran. Although researchers have claimed that HRM is culture specific, this study is unique in identifying which factors affect the transferability of HR policies and practices across borders and the extent of their influence.

The research is thus a significant in contribution to the literature on HRM transferability to IJVs in Iran and developing countries. Although Iran, with its specific national parameters, has been considered in this research, the author hopes the model produced can be further researched and improved by the study of other developing countries so that further factors can be revealed

In summary, the author believes this study has made the following contributions to knowledge:

- 1) identified the factors that influence the transferability of HR policies and practices to IJVs;
- 2) ranked those factors to show the degree of their influence on such transferability;
- 3) revealed new information about the role, development and implementation of HRM in MNCs and the MNC's relationship with the IJV;
- 4) produced a model that can be used in other IJV contexts to examine the effect of the environment on HRM transferability.

These findings and the model produced will greatly assist MNCs and local companies entering IJVs to deal the feasibility, negotiation and management phases of the IJV.

It is also evident as a result of this study that many areas remain for further research:

- 1) The model produced here can be transferred to other developing countries and used as the basis for discovering whether a different country would reveal a different set of influencing factors. The degree of influence of the factors could also be reassessed for the new country.
- 2) The author was limited to eight IJVs. A larger research sample may shed further light on this topic.
- 3) Some factors could not be investigated fully owing to time constraints. This allows room for the factors to be explored in greater depth and may lead to the discovery of new factors which were not revealed in this study.
- 4) The model produced in this study can be tested on other developing countries in order to improve it for a generic purpose to help HR managers better understand, transfer and implement HR policies and practices in new developing country environments.

## **CHAPTER 2: LITERATURE REVIEW**

## **2.0 Introduction**

The literature relevant to this thesis covers a wide range of topics: international HRM, international business (including IJVs) and cross-cultural management. The literature in these fields was studied to ascertain the relevance of the topics to the transferability of HR policies and practices in the setting of developing countries and within IJVs. As material on the specific subject of transferability of HRM in IJVs is more limited, it was necessary to explore the further fields to ensure the literature was properly focused yet broad enough in scope for this study. Given the vast range of material consulted, the selection for review here has been limited to that which directly concerns developing economies and is thus in line with the author's focus on Iran. This study is the first to examine such a wide scope of literature from different disciplines linking institutional, national and cultural theories, and environments to examine the influence these frameworks have on HRM transfer in an IJV setting.

The literature review and chapter is divided in the following sections:

1. International HRM,
2. The MNC and HRM.
3. The macro-environment.
4. The micro-environment and the IJV,
5. Gaps in the literature,
6. Conclusions and hypotheses.

## **2.1 International Human Resource Management**

Greater mobility in the global labour market, globalisation and the internationalisation of businesses, has caused more and more organisations to be confronted with the challenge of managing an increasingly diverse workforce. The complexities of international business are



no longer confined to multi-national enterprises (MNEs) but now affect small-to-medium-sized enterprises (SMEs), IJVs, public- and private-sector organisations, and not-for-profit organisations (Brewster, Sparrow and Harris, 2005). All of these organisations may find themselves managing people with a range of different work values, attitudes and behaviour patterns. As Laurent (1986) points out, HRM practices, more than any other management issues, are likely to be most sensitive to cultural diversity as they are designed by the bearers of one culture to handle other culture bearers.

The literature on international HRM (IHRM) focused first on expatriates (Mendenhall and Oddou, 1985; Tung, 1981), then spread to cross-cultural issues (Hofstede, 1980; Laurent, 1986) comparative HRM (Brewster et. al, 1996, 2004) and now extends to the management of people in international organisations (Brewster et. al, 2005; Rosenzweig and Nohria, 1994; Tung; 1995). Boxall (1995) distinguishes between comparative HRM (which examines how people are managed differently in different countries) and IHRM (how organisations manage their people across national borders). The comparative HRM field examines practices within firms of different national origin in the same country or compares practices between different nations or regions (Pieper, 1990). However, IHRM addresses the added complexity created by managing people across a diversity of national contexts and different national categories of workers (Rosenzweig and Nohria, 1994; Tung, 1995). Although originally comparative HRM and IHRM were distinct fields of study, the increasing reliance on strategic alliances and IJVs, coupled with a trend towards localisation, has made the need to understand HRM in general more important (Brewster et. al, 2005). Where IHRM focuses on managing an international workforce, new literature shows a distinction between IHRM and global HRM, where the latter is concerned with managing all HRM activities through the application of global rule sets (Brewster et. al, 2005).

### **Background: Models and definitions of HRM**

A review of the existing literature indicates that western countries have experienced a transition from traditional personnel/ labour management to HRM since the 1980s. HRM is

frequently seen as encompassing new methods and philosophies for managing employees (Lu and Bjorkman, 1998). In contrast to HRM, personnel management focuses more on issues related to industrial relations and administering employees, whereas HRM is seen as a strategic function concerned with consequences of all organisational decisions for human productivity and for the well-being of the entire workforce (Prewitt, 1982). However, HRM still encompasses personnel management issues such as recruitment, selection, training, remuneration but with a strategic slant (Legge, 1989; Poole, 1990; Schuler et. al, 1993; Storey, 1992; Tayeb, 2000). All these have a bearing on the overall management strategies of the firm and HRM can contribute to those strategies in various ways.

HRM is believed to be an essentially US invention (Tayeb, 2001). HRM in the USA evolved from psychology and was a direct response to challenges posed by foreign competitors to the USA. The prime concern was to improve worker motivation and thereby reduce the need for unions in collective bargaining and negotiations with management (Schneider and Barsoux, 1997). This led to a focus on the individual, on reward systems and job enrichment, which are all linked to performance management. When examining the emergence of HRM in the USA, but even more in other countries, one can see the direct influence of socio-economic and political factors. In Europe, HRM has evolved from a sociological perspective, with more attention to the social system, the economic and political context and the relationship between key actors, such as government, unions and management. Here the primary concern has been who has the power to decide, leading to efforts to promote industrial democracy (workers decide) and industrial policy (government decides). This has resulted in legislation for worker representation on the board of directors (work councils), in Germany and the Netherlands, quality of work-life councils in Sweden and the *code du travail* in France.

Tayeb (2001) notes two different perspectives on HRM: hard and soft (Storey 1987, Hendry and Pettigrew, 1990). The hard approach considers HRM as a driver for the strategic objectives of the firm (Fomburn et al, 1984) and human resources are seen as the object of formal manpower planning, alongside other factors of production, and as an

expense of doing business, rather than the only resource capable of turning inanimate factors of production into wealth (Tyson and Fell, 1986).

On the other hand, the soft model has a developmental, humanistic view of HRM. Although there is still emphasis on integrating human resource policies with business objectives, employees are treated as valued assets, a source of competitive advantage through their commitment, adaptability and high quality (Storey, 1987; Vaughan, 1994). According to this view, employees are proactive inputs in production processes and are capable of development, worthy of trust, and collaboration to be achieved through participation and informed choice. The stress is therefore on generating commitment via communication, motivation and leadership. If employees' commitment yields better economic performance, it is also sought as a route to greater human development (Beer and Spector, 1985; Storey, 1987; Walton, 1985).

The definitions and major models of HRM, as outlined above, have certain underlying values, assumptions and priorities, which are highly culture specific rather than reflecting universally accepted norms. In some countries, for example, it is not acceptable to consider human resources as strategic objectives of the firm to be used as production factors to create wealth for the company (Schneider and Barsoux, 1997).

### **The cultural context of HRM**

Research evidence shows that various HRM components and functions are highly sensitive to culture and context. Companies have different priorities, policies, practices and procedures for selection and recruitment, training, performance appraisal, motivation, pension schemes, redundancies, and industrial relations. The extent to which HRM can be considered strategic or global depends on national context and culture. In Europe, for example, government, unions and works councils have a greater impact on the strategic use of HRM practices than in the USA (Brewster, 1993). Stroh and Caligiuri (1995) however,

claim that it is not national culture that is the key to the establishment of HRM strategies, but more the organisational philosophy of the company.

Clark and Pugh (1999) conducted a "polycentric" study of the concepts of HRM in a sample of European countries: Germany, UK, Denmark, Spain, France, Sweden and the Netherlands. They found that although HRM has been well established in these European countries, it is implemented differently. If this is the reality of HRM in the developed countries, the situation of HRM in developing nations with their widely diverse political, social and business priorities and preferences is likely to be even more varied. Even the strategic nature of HRM can be missing in some companies and countries that have supposedly adopted it; it is still a relatively new concept in parts of the developing world, and in some parts it may be non-existent (Tayeb, 2001).

Clark and Pugh found that the concept of HRM has not always been accepted or established as an academic discipline evenly among some of the sampled nations. For example, there was not much evidence of HRM in Spain, especially with regards to the appreciation of the competitive value of human resources, which is at the basis of HRM. This was due to the high unemployment rates in Spain and the fact that organisations had to lay off staff. A further example of the differences in HRM among the European sample shows how Sweden's strong collectivist culture counters the development of a more individualistic orientation to employment relationships, and the Dutch feminine culture encourages the antipathy of Dutch employees to hard HRM. As Tayeb (2000: 129) points out: "The more culturally distanced a country is from HRM's home country, the more difficult it will be for HRM to settle there in its purest form".

Different cultural assumptions regarding, for example, organisations as systems of tasks versus relationships, the role of the individual and the collective, and the importance of being versus doing (achievement versus ascription) show HRM practices to be culture-bound. Many people question whether the notion of HRM is appropriate to national contexts other than the USA. Guest (1990) points out that HRM can be seen as a contemporary manifestation of the American Dream. Schneider and Barsoux (1997) highlight another

possible cultural objection to the concept of HRM: the idea of humans as resources assumes that people can be used like capital or raw materials that can easily be bought or sold and whose value must be maximised or exploited, and this may cause genuine offence in cultures that take a less instrumental (task-oriented) view of organisations.

Therefore, although companies can choose from a menu of HR practices that concern selection, management training and development, appraisal and compensation and career development, it is important to understand the cultural assumptions underlying these choices and to consider how these choices need to be modified or managed, an exercise that becomes all the more challenging when two diverse cultures come together in an IJV setting.

### **HRM in Developing Countries**

The role, perception and applications of HRM are different in developing countries. Tessema and Soeters (2006) add that effective HRM is now more than ever before a critical ingredient in the development process of such countries, but at the same time, the appropriateness of HRM and its effectiveness are thrown into considerable doubt (Bennell, 1994; Budhwar and Debrah, 2001; Kiggundu, 1989; Prah, 2004). The effect of decades of declining real incomes, political interference, poor working conditions and management has created a demoralised and demotivated workforce in many developing countries so that institutions are unable to retain personnel and often make poor use of their expertise (Bennell, 1994; Budhwar and Debrah, 2001; Das, 1998; Grindle, 1997; Jaeger et. al, 1995; Prah, 2004; Tessema and Soeters, 2006). The situation of HRM in many developing countries can be summarised as having the following characteristics: low salary levels, lack of effective performance standards, inability to fire people, too few rewards for good performance, recruitment procedures which do not attract appropriately trained people, promotion patterns based too much on seniority and not enough on performance, ineffective leadership, underemployment and lack of stimulating assignments (Cohen and Wheeler, 1997; Hilderbrand and Grindle, 1997). In an on-going study of HRM in a sample of international

JVs in Iran, Namazie (2000) found that Iran's perception and role of HRM is very different from that in developed countries<sup>5</sup>. Where some countries may view HRM as a strategic function, used in seeking to achieve competitive advantage by making full use of human resources (Lu and Bjorkman 1998; Storey 1995), in Iran the role of HRM to date is more basic and has been greatly influenced by internal and external politics. The redundancy of female staff in top managerial and industrial sectors following the Islamic Revolution in 1979 and the recruitment of large numbers of war veterans following the eight-year Iran-Iraq war (1980-88) are two examples. As Tayeb (2000) points out, HRM in this country is really the old personnel management with a heavy local colour, especially in recruitment and training areas. The development of HRM in Iran is further discussed in Chapter 4.

To better understand the picture in developing countries, a number of management scholars have worked in the field of international HRM and have put forth frameworks for conducting research on the topic. Budhwar and associates (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002) identify three levels of factors and variables known to influence HRM policies and practices. These include:

- national factors including national culture, national institutions, business sectors and dynamic business environments;
- contingent variables including age, size, nature, ownership, lifecycle stage of organisation, presence of trade unions and the HR strategies and interests of different stakeholders;
- organisational strategies of companies.

They argue that because HRM is in its infancy in many developing countries, only the impact of national factors can be further addressed.

Tayeb (2001) in agreement with Budhwar and associates (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002), adds that national culture, external factors such as socio-political, economic, the role of the state, education, and religion all affect the

competitive advantage of nations and influence the development and establishment of the HR base of countries.

Table 1 below summarises the factors known to influence the development of HRM (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002; Tayeb, 2001).

**Table 1: Factors which influence the development of HRM**

Factors	
National Culture Factors	National culture factors recognise the management style, the meaning of work and values, the attitudes and manners of the workforce, and the assumptions that shape managers' perceptions and insights. Hofstede's (1980) national culture dimensions: are power distance, uncertainty avoidance, individualism versus collectivism, femininity versus masculinity and time orientation.
National Institutions and the role of the State	National institutions and the role of the state include national labour laws, politics, educational and vocational establishments, trade unions, government institutions, professional bodies, and labour markets.
Industrial Sector	The industrial sector concerns strategies, business logic and goals, regulations and standards, developments in business operations, and labour or skill requirements.
Dynamic Business Environment	The dynamic business environment relates to sub-components such as competition, business alliances, the changing composition of the workforce, restructuring, focus on the customer, technological change and the effects of the globalisation of business.
Religion	Religion also plays a significant role in portraying the national culture of nations and in influencing the cultural characteristics of their people and institutions. Islam has always encouraged its believers to engage in commerce and private enterprise. Among the values espoused by Islam are individual responsibility within a framework of cooperation with others, fatalism but also a recognition of personal choice, work ethic, patience, self-discipline and abstinence, resolve, sincerity, truthfulness and trust. Countries such as Indonesia and Malaysia may be the first Muslim countries to achieve industrialisation based on these beliefs and values without relying on oil and underground resources.

Source: Summary of Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002; Tayeb, 2001

### **HRM in the IJV**

A review of the literature on IJVs, spanning over three decades, can be divided into that looking at the literature from the point of view of the external environment and that which

takes an internal point of view. The external environment in which the JV operates comprises market conditions, home- country laws and regulations, macro-environmental factors such as the political, economic, socio-cultural and legal setting of the venture and the countries in which the venture or strategic partnership is based (Child and Faulkner, 1998; Contractor and Lorange, 1988; Datta, 1988; Faulkner and de Rond, 2000; Gulati, 1998, Harrigan, 1985; Killing, 1983; Koza and Lewin, 1998, Tayeb, 2001). In many ways the external environment is concerned with *why* and *how* an IJV is formed. The internal environment concerns issues such as policy implementation (the IJV needs to establish a vision, mission, values, HR policies and practices), operation, and management of the venture. Researchers have mainly discussed a three- or four-stage model for the setting up of IJVs.

One of the pioneering studies on HRM in IJVs most relevant to this research was conducted by Schuler (2001) in which he gave a four-stage model of the HRM needed for IJVs. At each stage of the IJV there are different concerns and considerations with respect to HR decisions. In the first *formation* stage, there is a need to examine HRM from an organisational point of view—more an examination of the policies and broader HRM issues. In the second *development* stage, HRM is implemented although broad issues from stage one are still incomplete. For example, in this stage, key personnel need to be recruited and selected as they will be the most important anchors in the IJV. As the *implementation* stage begins, it is necessary for both global and local policies to be decided and implemented. At the same time, the IJV continues to appoint staff and acquire new knowledge about what works best with the new entity. In the final stage, *advancement*, learning becomes stronger and the HRM policies and practices become more grounded in the new entity; the sharing of knowledge and experience should be developed between the partners and best practices applied.



## **2.2 The Role of the MNC and HRM**

The literature reviewed in this section addresses the MNC and its subsidiaries in overseas markets. MNCs have an enormous significance in the global economy. They, more than any other single institution, have become regarded as the primary shapers of the global economy (Dicken, 2003). United Nations Centre for Trade and Development (UNCTAD) (2003) estimates that there are currently some 64,000 MNCs controlling approximately 870,000 foreign affiliates and employing 53 million people abroad. The global stock owned by these MNCs amounts to US\$7 billion, thus making the impact of MNCs very significant both on globalisation and foreign direct investment (FDI) activities.

### **The Strategic Role of HRM in MNCs**

It has been argued that human assets are an emerging source of competitive advantage for MNCs (Bartlett and Ghoshal, 1991; Schuler and Rogovsky, 1998). Indeed, HRM is evolving from being a support function to one of strategic importance (Teagarden and Von Gilnow, 1997). The growing importance of HR policies and practices in MNCs is attributed to the fact that they act as mechanisms to coordinate and control international operations (Bartlett and Ghoshal, 1998). HR systems also help shape organisational culture and transfer best practice to overseas subsidiaries (Myloni, et. al., 2004). However, HRM adds to the complexity when MNCs try to implement global strategies mainly owing to the issues involved in employing and managing people from different national and cultural backgrounds (Myloni et. al, 2004).

### **Internationalisation of HRM**

Human resources must be managed to support the rapid pace of internationalisation and globalisation and allow companies to maintain their competitiveness in the market. Pucik (1998) points out that many companies are competing globally and are facing a multitude of new demands on their organisational structure and personnel. In order to survive in this

globally competitive environment, companies are embracing closer regional and global integration and coordination. At the same time they face demands for local responsiveness. HRM is central to this challenge.

Perlmutter (1969) suggested four internationalisation strategies organisations use that ultimately influence their personnel practices. These are *ethnocentric*, *polycentric*, *regiocentric* (added later in 1985 by Perlmutter) and *geocentric* (also referred to as *global*). An ethnocentric approach is where the parent company exports its home-country practices to all other subsidiaries without changing them; for example, key staffing positions are held by home-country nationals and there is a high degree of management by expatriates. In a polycentric approach, each subsidiary is seen as a separate entity; although the entity may be managed by locals, these same locals will not be able to hold career positions within the international group or at headquarters. The regiocentric approach is similar to a geocentric approach, but concentrates on specific regions, whereas the geocentric approach is wider and able to identify and make use of talent anywhere in the world. Adopting a polycentric HRM system allows managers to be more sensitive to the cultural beliefs and attitudes of local populations and reduces the risks of cultural problems (Newburry, Zeira and Yeheskel, 2001). Numerous other authors have stressed the importance of companies committing to polycentric HRM strategies in IJVs (Lane and Beamish, 1990; Newburry and Zeira, 1999; Pucik, 1988; Zeira and Parker, 1995; Zeira and Shenkar, 1990).

Beechler and Yang (1994) found there were four sets of factors that influenced whether an MNC can transfer its ethnocentric HRM practices to its subsidiaries: the factors related to the MNC home country, factors related to the host or local country, factors involving the company itself, and how dependent each company was on the other partner.

Adler and Ghadar (1990) take this a step further to provide a framework for the implications of the different phases of internationalisation on HRM. They identify four stages in the development of international enterprises:

- domestic (the company produces and offers its products in the home country);

- international (companies move into foreign markets and need to consider local conditions);
- multinational (companies need to compete with one another in different markets, therefore cultural differences must be recognised as multicultural people may be employed in the different subsidiaries);
- global (even greater adaptation to local markets and cultural sensitivity becomes a crucial issue; cultural diversity is theoretically used to the company's advantage in order to provide managers from any country to any location).

Which strategy is chosen depends on the philosophy and preference of the company, also the local conditions, which include both exogenous (including industry characteristics and technology, the nature of competitors and the extent of change and country/ regional characteristics such as political, economic, socio-cultural conditions and legal requirements) and endogenous factors (including the structure of international operations, the international orientation of the organisation's headquarters, the competitive strategy being used and the multinational's experience in managing international operations (Schuler et. al, 1993)

The MNC is viewed as the vehicle by which dominant HR policies and practices are transported across national boundaries (Morley and Collings, 2004). A number of researchers have identified that the among the challenges and contradictions MNCs face is the need to be simultaneously local and global in scope, being centralised and decentralised (Doz and Prahalad, 1986; Evans et. al. 2002), and maintaining a dynamic balance between implementing global standard practices and localisation if they are to become transnational (Bartlett and Ghoshal 1998).

This leads to two of the central issues in MNC literature: the extent to which subsidiaries act and behave as local firms (local isomorphism), and the extent to which their practices resemble those of the parent company or a global standard (internal consistency)

(Jain et al., 1998; Myloni et al., 2004; Rosenzweig and Nohria, 1994). MNCs have to decide how to manage their HRM policies and practices in host countries—whether these should be standardised to MNC global integration or localised to practices in the host country or a combination that blends both standardisation with local responsiveness (Doz, Bartlett and Prahalad, 1981; Hannon, Huang and Jaw, 1995; Lu and Bjorkman, 1997; Prahalad and Doz, 1987; Schuler, Dowling and De Cieri, 1993; Taylor, Beechler and Napier, 1996). In practice MNCs are more likely to use a pragmatic, hybrid strategy and opt for what fits best with each subsidiary's local conditions (Tayeb, 1998). Therefore, an MNC with subsidiaries in different countries may choose an ethnocentric strategy in one country, a polycentric one in another country and so forth.

Although research is emerging on polycentrism, the author believes it is still incomplete and warrants further study. Research to date does not yet show how polycentrism is measured and ranked across companies, policies and practices.

When considering what impacts HRM transfer, it is important to take into consideration factors originating from both the cultural and institutional framework of the host country. In a review of international and comparative HRM by Clark et al. (1999) found only 10.5% of papers considered both issues in their research findings. The cultural and institutional frameworks of host countries are especially important when considering transitional, emerging and developing markets (Myloni et al., 2004).

One of the factors that influences this debate is that the country of origin of the MNC influences the HR effort in foreign subsidiaries. Subsidiaries are generally constrained by the institutions of the host environment when it comes to implementing globally standardised practices. Gunnigle et al. (2002) compared how subsidiaries of different nationalities adapted their HRM policies and practices to account for the host environment. In a study comparing six European and US MNCs in the UK, Ireland, France, Denmark, Germany and Sweden, they found that while both European and US firms localised their practices, the level of localisation in the US firms was lower. US firms were more likely to implement globally standardised HRM policies and practices than their European counterparts. The

researchers attributed this variation to the degree of institutional constraint in the host environment, the economic dominance of the country of origin and the free market ideology dominant in the USA. In a further study, Geppert et al. (2003) found that truly global firms not only acknowledge the need for adaptation of policies in different subsidiary operations, they plan for it. Even though the literature emphasises some country of origin variations in HRM, it also shows the significance of adapting practice to account for local institutional constraints—the “think global, act local” philosophy.

These issues pose crucial problems when an MNC wants to transfer HR policies and practices to different countries and subsidiaries (Bae et al. 1998; Hofstede, 1980; Kovach, 1994; Rosenzweig and Nohria, 1994; Yuen and Kee, 1993) especially when some practices do not conform to the host country culture. Failure to adapt HRM practices to a host country's culture can result in negative consequences and may inhibit the performance of the subsidiary. Research shows that MNCs adapt at least in part their HRM policies and practices to the host country in which they operate (Beechler and Yang, 1993; Myloni et al. 2004; Schuler and Rogovsky, 1998; Tayeb, 1998). Indeed, subsidiaries that have been managed in line with national country expectations have been found to perform better than subsidiaries managed otherwise (Newman and Nollen, 1996).

### **Convergence and divergence hypotheses**

Two influential approaches to the application of culture and its consequences on managerial and organisational settings were the *convergence* and *divergence* hypotheses. Recent research and literature suggests that management practices continue to be characterised by divergence across national borders (Brewster et. al., 2004; Harzing and Sorge, 2003). This is true despite globalisation appearing to result in the convergence of national economic policies, economic organisation and management practice towards a best model (Morley and Collings, 2004). Moreover, Royle (2000: 210-211) based on a study of McDonald's in Europe, found that, while there were increasing divergences within national systems, there

is increasing convergence across national borders driven by strong MNCs, which he argues set the agenda in certain sectors, despite national and EU legislations.

The convergence approach centred on the argument that the common requirements of management disregarded the importance of cultural differences (Harbison and Myers, 1959). The divergence hypothesis, on the other hand, stated that organisations maintain their culturally based dissimilarities (Adler, 1983; Child, 1981; Hofstede, 1980; Laurent, 1983; Trompenaars, 1993).

A possible development of the convergence/divergence dichotomy is *crossvergence*, where, through processes of blending two parent cultures, "cross-bred" forms may be apparent (Ralston et al., 1993). Ralston et al. (1997) define *crossvergence* as "when both national culture influences and economic ideology influences of two cultures synergistically form a unique value system which is different from the original value set supported by either national culture and economic ideology". Some researchers, emphasise the need to gain a deeper understanding of the relationship of management to cultural and national characteristics, instead of just focusing on convergence, divergence and differential competition factors (Earley and Singh, 1995). Priem et al. (2000) confirm that if convergence is a movement towards one approach to managing and a universalisation of principles, policies and practices, crossvergence involves a number of different movements towards the development of new forms of managing. Priem et al. (2000) continue with the example of Hong Kong which combines both western and Chinese influences in a hybrid form of management.

### **Transferability of HRM to IJVs**

IJV performance, its success or failure, is largely affected by the partners' ability to manage HRM in multicultural contexts (Nam, 1995). Each phase of the IJV, from formation to advancement, will have a different set of HR needs all of which are dependent on each other (Schuler, 2001). MNCs have to recognise that HR policies and practices will be different in each IJV relationship and will reflect the national cultures of the foreign and local

partners. For example, Markus and Kitayama (1991) report that reward and control systems used in an individualistic culture such as the USA will be ineffective in a collectivist Asian culture.

Tayeb (1998) notes that some HRM practices are transferable across cultures and countries and others are culture specific and that most companies have corporation-wide HRM policies but find it more difficult to apply them in the form of country-specific HRM practices. Corporation-wide HRM policies involved high-level decision-making, whereas their application to other countries requires changes in behaviour. Different HRM practices often have different levels of MNC standardisation and localisation and the possibility of combining MNC and host country elements may vary among different HRM practices (Rosenzweig and Nohria 1994).

Yan and Gray (1994) suggest that an IJV's choice of MNC standardisation versus localisation will be significantly determined by the control of high-value critical resources. These critical resources have been identified as the most important factors controlling IJV management and are: equity ownership (the percentage that the foreign partner owns the joint venture) and non-financial contribution (technology transfer, skills, knowledge, strategic materials, know-how) (Geringer and Hebert, 1989, Harrigan, 1985; Kogut, 1988; Yan and Gray, 1994). This is further reinforced by the study conducted by Hanon et al. (1995), which concludes that foreign ownership plays an active role in the protection of MNC-invested units from pressures of localisation, in other words, the more power and control on part of the MNC, the easier it becomes to influence HRM practices in IJVs. This will cause the IJV to have more standardised HRM policies and practices. Therefore, the degree of MNC standardisation was particularly high in the IJVs with a dominant and controlling western partner (Killing, 1983; Lu and Bjorkman, 1999).

Lu and Bjorkman (1997, 1998, 1999) have done the most relevant work with regards to the author's field of study and have examined transferability of HR practices in IJVs in China. MNCs here must make a choice between standardisation or localisation of HR practices in IJVs. Lu and Bjorkman term the phenomenon *compatibility*, describing the

choice MNCs have to make between standardising HRM policies and practices versus localising them across settings and cultures. If HRM practices are not compatible, conflicts may arise, therefore they have to choose one or the other.

Lu and Bjorkman (1997) studied 67 JVs in China, to compare the compatibility of different HRM practices between the MNC's home and host countries. Evans and Lorange (1990) pointed out that those HRM practices closely associated with technical/ product operation are expected to be more compatible than those which are influenced by socio-cultural diversity (Lu and Bjorkman, 1997). Recruitment and training are assumed to have a high compatibility between countries as they are characterised by similar technical experiences. Other HRM practices, such as promotion, performance appraisal and compensation are more distinctive from one country to another because they are induced by socio-cultural factors (Hofstede, 1984).

Lu and Bjorkman (1998) used five categories to compare HR practices: recruitment (source and methods), training (contents and amounts), performance appraisal (criteria and methods), promotion criteria and financial rewards (criteria and importance). They found the most frequently MNC-standardised HR practices to be promotion criteria and performance appraisal criteria and methods. The next most frequent are the reward criteria. Recruitment methods, training and importance of reward criteria were relatively less similar to MNC standard HR practice. Most similar to local country practices were those relating to sources of recruitment and financial rewards.

Similarly, research conducted by Tayeb (1998) on the transferability of HRM practices and policies in a Scottish subsidiary of a US MNC confirmed the view shared with Lu and Bjorkman, that recruitment, training, pay and benefits and pension have followed the company's overall HR policies but within locally acceptable practices. She continued that the subsidiary's HR policies and practices was influenced by the socio-cultural characteristics of the location of plant, the company's organisational culture, business and technological imperatives and the home country's HRM strategies.



Furthermore, an important conclusion reached in Lu and Bjorkman's (1997) study was that each HRM practice must be studied individually across geographical settings, MNC home countries, different industries and ownership structures (Schuler et al., 1993; Taylor et al., 1996). However, a review of research that differentiated among HRM practices shows that there are large contradictions as to which practices are more easily transferred and which are not (EIRR, 2000; Lu and Bjorkman, 1997; Weber et. al. 1998). They also stated that the mode of establishment (greenfield or merging of local firm) had an influence on HR practices, which needed further research. Table 2 below is a summary of Lu and Bjorkman's (1997) research findings in terms of localisation or standardisation on IJVs in China.

**Table 2: Summary of Lu and Bjorkman's research on 67 IJVs in China**

<b>Recruitment and Selection</b>	<ul style="list-style-type: none"> <li>• High compatibility based on similar technical experiences</li> <li>• Local practices can be easily employed in this practice</li> <li>• Localised sources of recruitment as the local partner will have a better understanding of the recruitment channels in their home country and also of the available skill and educated workforce</li> </ul>
<b>Training and development</b>	<ul style="list-style-type: none"> <li>• Training had been adapted specifically to the needs of the IJV</li> <li>• Mainly in skills and language</li> </ul>
<b>Promotion</b>	<ul style="list-style-type: none"> <li>• MNC standardised</li> </ul>
<b>Compensation and Reward</b>	<ul style="list-style-type: none"> <li>• Reward criteria less standardised, local culture is taken into consideration</li> <li>• MNC may introduce some performance pay and bonus measures</li> <li>• This needs to be culturally oriented.</li> </ul>
<b>Appraisals</b>	<ul style="list-style-type: none"> <li>• Appraisal criteria with more MNC standardisation mainly as the local partner did not use formal appraisals to assess and evaluate staff performance.</li> <li>• In designing the appraisal criteria, cultural factors must be taken into account</li> </ul>
<b>Other points</b>	<ul style="list-style-type: none"> <li>• IJV managers and local staff were more in favour of western HR practices as they felt it was more effective in attracting highly qualified people and motivating employees</li> <li>• western HRM practices were seen to be more systematic in performance appraisal, performance oriented pay, promotion and long term career development</li> <li>• MNC and locals stated that local practice and culture must be taken into consideration when deciding on an HR strategy</li> </ul>

A similar study conducted by Myloni, Harzing and Mirza (2004), on the transferability of HRM practices and policies in Greece found that each HR practice needs to be considered separately. Their findings show:

- compensation practices show more localisation,
- performance appraisal shows more standardisation,
- selection is less standardised (which might indicate that MNC subsidiaries have adapted their selection methods to local cultural norms).

The conclusion reached was that MNCs adapt to local conditions, depending on the nature of the particular HRM practice. Some practices were very difficult to transfer as they were not in line with Greek national culture, such as specific selection procedures (Greeks use more informal recommendations), 360-degree appraisal and some compensation practices such as fringe benefits and temporary contracts were not in line with labour regulations. Their results were in line with previous findings by Weber et al. (1998) on selection practices and Lu and Bjorkman (1997), Rosenzweig and Nohria (1994) and Verbarg et al. (1999) for performance appraisal and compensation practices. Their research supported the argument that, owing to cultural and institutional forces, HRM practices in MNC subsidiaries located in Greece will resemble local norms to some extent and that different HRM practices are subject to different degrees of transfer. Additionally, by cross-tabulating control variables with cultural and institutional interactions, they found that various industries showed different levels of localisation. For example, they found that because the banking industry had strong unions, it showed the highest level of localisation. The older the MNC subsidiary, the more localised HR practices were and the larger the size of MNC subsidiaries, the greater the likelihood of using localised HR practices, as these large firms adopt more socially responsible HRM practices because they are more visible and are under greater pressure to gain legitimacy (Gooderham et. al., 1999).

## **2.3 The Macro-environment**

National, political and economic institutions of the partner's home country greatly influence the form of partnership the venture may take. The partnership is subject to rules and regulations of regional and global agreements and institutions to which host and home countries of the partners and their venture subscribe (Tayeb, 2001).

The influencing factors for the home and host country to enter an IJV or international strategic partnership are different. For the home country, (that is the country which wants to invest in a new market and in many cases an MNC), shared ownership and freedom of movement of capital across borders are major influencing factors in the decision to enter an IJV relationship. Also in some countries, home-country taxation policies make it easier for the company to enter IJVs rather than set up wholly-owned subsidiaries (Beamish, 1993). Apart from the advantages for the host country to form and enter an IJV, there are also major institutions which serve as the channels of influence in an IJV. Tayeb (2001) categorises these as:

- the legal system,
- political culture,
- industrial relations culture,
- level of economic advancement,
- membership of global and regional agreements,
- the national culture as a whole.

These factors influence the form and style of management of the IJV in the host country. Meschi (2005) points out that the more uncertain and difficult the environment in the emerging country, the more motivated will the foreign investors be in forming a JV with local partners, rather than acquiring a local company or set up a local wholly-owned subsidiary. The foreign partner provides the IJV with upstream resources such as funding, brand and production technology (Connolly, 1984; Pan, 1996) and the local partner provides downstream resources such as awareness of local markets, access to distribution channels,

personnel (Inkpen and Beamish, 1997; Kale and Anand, 2001), knowledge of local regulations and access to governmental authorities (Kale and Anand, 2001).

The advantage of entering IJVs in developing countries is being able to share the risks with a local partner. The foreign partner share risks and ensures the commitment of the local partner. The local partner is integrated into the macro-environment of the host country and its familiarity with the business climate, language and culture of the country is potentially a valuable resource for the foreign partner. The local partner also benefits greatly from the foreign partner, who may be transferring technology, innovative managerial practices, expertise and brand names to the IJV relationship (Beamish, 1988). As Tallman et al. (1997:185) in respect of Russia point out:

*JVs... combine the capabilities of foreign companies with local knowledge and contacts, as well as a certain amount of legal protection, thereby reducing uncertainty and potentially providing decreased costs and increased revenues.*

In relation to national economic factors, Meschi (2005) believes that companies that break into risky emerging countries find fewer foreign competitors and therefore less competition than in stable countries, which adds to the attraction of forming IJVs in emerging countries.

### **Government policies and politics**

The host country's policy on FDI will depend on its government's political economic ideology. In some countries, entry into certain industries is prohibited and there are strict views about FDI. An example of prohibited entry into a certain industry is the Iranian oil sector, where foreign oil companies are still barred from owning hydrocarbon reserves. The basis of this policy is Article 81 of the Iranian Constitution that prohibits the granting of any concessions to foreign individuals or companies. In the aftermath of the 1979 Islamic Revolution, the country barred international companies from any investments in the Iranian oil and gas sector. Although the legal framework has become more flexible, the reality remains, at the time this thesis was produced, that foreign companies can only participate in

the Iranian hydrocarbon sector through service contracts called *buyback* rather than through FDI.

In some countries massive FDI is seen as a threat to national sovereignty, hence limitations are placed on it. For example, in Iran the foreign ownership of more than 49% stake in any IJV partnership requires a special permit from the government. This mechanism enables the government select the sectors and companies in which a dominant position can be granted to foreign companies. Furthermore, the country's Foreign Investment Promotion and Protection Act (FIPPA)<sup>6</sup> obliges the government to keep the overall share of foreign investment in any given sector below 25%. Though this task is difficult to accomplish on account of fluid sector boundaries, the Act indicates the underlying concern of the Iranian government about foreign entities dominating the country's economic sectors. Other laws in Iran, such as the strict protectionist labour law, have been designed to be pro-employee, making it difficult to fire staff (Namazie, 2004). In addition, high employment taxes levied on foreign nationals have made it difficult to retain expatriate staff in Iran and a number of other countries in the region.

In developing countries, most strategic alliances are in the form of JVs and enforced by government mandate. Governments in most developing countries pursue protectionist industrial and economic policies. In the 1970s, for example, the only way to enter countries such as India and Nigeria was by JV relationship. This posed a problem to several US multinational companies whose policy at the time preferred centralised control and they would not agree to any form of equity participation in any market. Thus, in 1977 they abandoned the Indian market (Mead, 1998). By the 1990s, however, the IJV had replaced the wholly-owned subsidiary as the most widespread form of foreign investment by US companies (Mead, 1998). On the other hand, Bahrain has become one of the front runners in the attraction of FDI in the Middle east and North Africa (MENA) on account of incentives such as labour subsidies, electricity and land rebates, 100% custom duty rebates for major raw materials, export credit and tariff protection (Gilmore et. al., 2003; Kobeissi, 2005).

Some of the restrictions that some countries place on FDI are the result of their historical, political and economic relationship with other nations. An example is the scepticism of Iran towards the USA and UK following the staged *coup d'etat* in Iran in 1953 by foreign powers, which continues to be a cause of mistrust and suspicion towards those particular nations. The result is that a number of UK companies, especially in the oil sector, have had difficulty in changing the suspicious mindset of the National Iranian Oil Company (NIOC) and winning major contracts. Recent events since 2001 (9/11, war in Afghanistan and Iraq), have caused tensions and restrictions on foreign investment between the Middle East and the USA and Europe, particularly the UK.

One way that companies and governments show caution and control this investment, is by allowing only a minority foreign share ownership, which is perceived as a safeguard against foreign exploitation. Gomes-Casseres (1988) argues that the more attractive a host country market, the more foreign firms will be willing to trade away their ownership preferences for access to the market—as can be seen in the increase in IJVs discussed above. A study was conducted in 2005 examining the environmental uncertainty (including various country political and economic risks, such as government instability, political turmoil, fluctuating currency rates, discriminatory tax system and corruption) and survival rate of IJVs in 210 IJVs formed since 1996 between European Union countries and local partners from different emerging countries (Meschi (2005). Meschi found that political risk in itself does not affect IJVs and their survival. Political risk is not seen as a threat for these organisations, but overall country risk was considered an important factor.

### **Legal considerations**

Legal issues are among the strongest pressures forcing companies to implement structural and procedural changes (Rosenzweig and Singh, 1991). The foreign company operating in a host country will be subject to that country's laws and regulations, regardless of their ownership and managerial majority. Some countries have very strict business laws that can cover all areas from registration, to the choice and locality of the operating site and HR

management styles (Tayeb, 2001). Indeed in France, companies of a certain size are required to provide training for their employees and organise social and leisure activities. A legal environment which protects investors can also be significant in the decision-making process for the investor to enter a new market (LaPorta, et. al., 1999). Host country legal regulations represent a strong environmental pressure on MNC subsidiaries (Schuler et. al., 1993; Taylor et. al., 1996) and the legal environment of the host country can constrain the transfer of HRM practices from the MNC (Beechler and Yang, 1993).

### **Governance**

The standard of governance (traditions and institutions that determine how authority is exercised in a country) has the potential to affect a host country's attractiveness for foreign investment (Kobeissi, 2005). It contributes to the effective implementation of economic policies and helps determine whether or not there is a sound, attractive business environment for investment (Kaufman, et. al. 1999, 2000). Good governance is generally manifested in a country's accountability, government effectiveness, regulatory burden, political stability, rule of law and control of corruption (Kaufman et. al., 1999). A key element widely related to governance and associated with foreign investment has been transparency. Lack of transparency is a common sign of poor governance (World Bank, 2003). Davis and Ruhe (2003) found a highly significant relationship between foreign investment and the tendency for corruption. Prospective investors are paying more attention to corruption in foreign countries (Conklin, 2002) so that a firm may be less likely to enter a non-transparent country because of the increased risks and uncertainty.

Drabek and Paynes (2001) state that on average a country could expect a significant increase of up to 40% in the level of FDI if it took steps to increase the degree of transparency and reduce corruption. Globberman and Shapiro (2003) found that the returns on investment in good governance were much greater for developing and transition economies. Even so, the World Bank (2003) found the lowest ranking countries on the index

of the overall quality of governance from 1999-2001 to be countries from the MENA region, specifically Iran, Kuwait, Libya, Saudi Arabia, UAE and Yemen (Kobeissi, 2005).

### **Global and regional agreements**

The host country might place legal restrictions on the IJV, but the home country may also have a range of global and regional agreements it will have to honour when setting up an IJV in the host country. For example, US trade sanctions on Iran have denied the majority of US companies access to the Iranian market. These sanctions were regulated through a series of Executive Orders by the US President barring US companies from doing business in Iran. However, this has provided a good opportunity for European companies (as well as subsidiaries of US companies with non-US majority shareholders) to step in.

Another example is seen in the EU with its single market directives, which have had a great deal of influence on regional rules and regulations for firms, causing some to standardise or harmonise their activities and encourage the free movement of capital, goods, services and people between Member States.

### **Economic considerations, level of industrialisation and economic freedom**

The level of economic advancement and industrialisation of a country will have profound implications for companies located there. The physical infrastructure such as reliable telecommunications, properly maintained road and railways, access to the latest technology, a highly trained and skilled workforce are all factors which will influence the day-to-day operations of IJVs and help them to achieve their strategic goals and objectives. Countries with lower economic advancement find it more difficult to attract FDI. The level of economic freedom can also have an impact on foreign investment, especially with regards to a country's trade policy, banking and financing services and its property rights protection (Drabek and Payne, 2001; Globerman and Shapiro, 2003). Most countries adopt some form of trade barriers responding to various protectionist and special interest politics (Gwartney et. al. 2003)—measures that can lower productive efficiency by reducing competition and



raising transaction costs (Harms and Ursprung, 2002). Furthermore, lack of a safe and sound financial sector, inadequate financial systems, heavy bank regulations and the weak enforcement of contracts, protection against fraud and poor protection of property rights can restrict economic freedom and discourage foreign investors from entering the market (Beck, Levin and Loayza, 2000; Gwartney, et. al., 2003; O'Driscoll et. al., 2001).

In a comparative study of twelve countries in the MENA region, Iran scored lowest on FDI in the period 1990-2001, and had the lowest score for governance and economic freedom (Kobeissi, 2005). In the same study, governance, followed by the legal system and economic freedom, were shown to have the greatest bearing on the flow of foreign investment in the MENA region. The lesser importance of the legal system and economic freedom could be due to the fact that investors from different countries have different degrees of tolerance and expectations in a host country's investment environment. An investor from a country with a tradition of corruption and weak enforcement may not be as discouraged by a flawed legal system, and therefore the perceptions and expectations of the country's legal system may be affected by factors such as nationality, export orientation and size (Hewko, 2002; Perry, 2001). Perry (2001) also noted that the most important factor in attracting foreign investors is the opportunity for profitable business.

### **National culture**

National culture is the geographic reach of a culture based on its physical boundaries. The socio-cultural environment determines the collective norms, values, beliefs and attitudes of people within a society and organisations. Differences in national culture will impact on the way the IJV and HR are managed. How companies in different countries manage their organisations and people is culture specific and will affect the transferability of HRM practices.

Table 3 gives a summary of the national cultural dimensions identified by different management theorists and researchers. Even though the researchers conducted separate research, many of the themes are similar.

**Table 3: Synthesis of themes in national culture and cultural studies**

<b>Researcher/ date</b>	<b>Main themes</b>
Parsons, 1951	Emotionally charged/ emotionally neutral Diffuse (multidimensional)/ specific Universalistic/ particularistic Ascription/ achievement oriented Self/ collectively oriented
Hall, 1990	Time (monochronic/ polychronic) Space (personal/ physical) Material goods Friendship Agreement Language (high/ low context)
Kluckhohn and Strodtbeck, 1961	People's qualities as individuals (good/ evil) Relationship to nature (dominant/ harmonious) Relationship to other people (individual/ collectivist) Primary type of activity (doing / being) Orientation to time (past/ present/ future)
Schein, 1985	Relationship with nature Human activity Human nature Relationships with people Time Truth and reality
Adler, 1991	Same as Kluckhohn and Strodtbeck with added 6 <sup>th</sup> dimension of: orientation to space (private/ mixed/ public).
Hofstede, 1980 Hofstede and Bond, 1988	Power distance Uncertainty avoidance Individualism/ Collectivism Masculinity/ Femininity Long-term / Short-term Orientation (added later Hofstede and Bond, 1984, 1988)
Trompenaars, 1993	Relationship with nature Relationship with people Universalism/ particularism Individualism /communitarianism Neutral /emotional Specific / diffuse Achievement / ascription Relationship with time

Source: Author's notes and synthesis of themes

For the purposes of this research, emphasis will fall on Hofstede's dimensions in Chapter 4 relating to Iran. His work is selected as it uniquely includes Iran in the initial data-gathering phase.

## **Management in developing countries**

National culture is one of the macro-environmental impacts on the management style of the local partner in the IJV. The macro-environment in developing countries is different from that of developed and industrialised countries and hence management theories and practices developed in these countries may have limited applicability in the context of the developing country. Kanungo and Jaeger (1990) state the clear need to develop indigenous management theories and practices for use in developing countries. Theories and practices need to be developed based local conditions and socio-cultural forces. Therefore, it is important to recognise explicitly the context of economic, political and cultural differences between developed and developing countries and to adapt the knowledge and technology best suited to developing areas.

Differences in the economic and the political environments in developed and developing countries can be characterised by two critical factors as suggested by Triandis (1984): the unpredictability of future environmental events and the difficulty in obtaining resources from the environment.

Each nation has its own culture-building institutions such as religion, education, and the state that play significant roles in their competitiveness. Cultural values and attitudes of nations, such as entrepreneurial drive and work ethic also influence the competitiveness of nations.

Management scholars have held both institutional and cultural reasons accountable for the differences in approaches, management styles and practices in countries around the world. The institutional arrangements concern more the education system, the relationship between business and government and religious institutions. The cultural approach examines the differences in culture and holds those responsible for the underlying differences in the way management is performed in various countries.

## 2.4 The Micro-environment and the IJV

This section identifies the literature on the structure of the IJV and the micro-environmental factors and the degree of influence they have on transferability of HR policies and practices to the IJV.

IJVs are increasingly providing opportunities for firms to expand their geographic base, penetrate new markets, manufacture new products, create economies of scale, reduce and share risks, learn new skills and technologies, facilitate effective resource sharing, and generally make more profits (Bleeke and Ernst, 1993; Contractor and Lorange, 1988; Harrigan, 1988; Meschi, 2005; Park and Ungson, 1997; Slocum and Lei, 1993; Yip, 1992). IJVs are one of the most popular forms of international partnerships (other forms include strategic alliances, R&D partnerships and consortia) and involve technology transfers, licensing agreements, management service and franchising agreements, cross-manufacturing agreements and other strategically innovative transactions (Tayeb, 2001). As Faulkner and de Rond (2000: 375) point out:

*practicing [sic] managers, politicians, legislators, and academics alike recognise that without cooperation the probability of survival in a globalising, turbulent and increasing technologically sophisticated world is slim.*

An impressive amount of research has followed the expansion of cross-border partnerships and strategic alliances, concentrating mainly on IJVs but even so, a full understanding of IJVs is still some way away (Beamish and Killing, 1996).

Although JVs are perceived as a complex form of agreement between companies, they also have many advantages over other forms of strategic cooperation. In principle, JVs offer advantages to firms on both sides of the relationship and yet they have been fragile affairs with a rather high failure rate (Geringer and Frayne, 1990; Raffee and Eisele, 1994; Kogut, 1988). An example of a successful IJV is Volkswagen's venture with a local Chinese company, establishing the Shanghai Volkswagen Automotive company in 1994, which was

reported to have achieved a yearly production of 120,000 cars, a 40% market share and profits of 250 million German marks. An example of an IJV failure is the collapse in 1989 of the venture between AT&T and Olivetti (Buchel et al., 1998).

### **Attributes of IJVs**

The defining attributes of JVs are cooperation and autonomy (Buchel, et al., 1998).

Cooperation results from the partners' working together in order to create a new and legally distinct entity, which is autonomous because it is legally and organisationally independent and detached from the original partners (Buchel, et al., 1998). While ideally the IJV implies cooperation and partnership, if not managed well, some IJVs fail because the partners become competitors rather than partners.

Although IJVs are a form of international strategic alliance and partnership, there is a fundamental difference in terms of depth of involvement of the partners between IJVs and other forms of international partnerships. As Tayeb (2001:2) points out:

*The companies involved in a strategic alliance join together in an exercise of shared strategies and vision, usually in order to be able to handle their environment and markets more effectively, but not of shared financial and managerial activities. These companies may own a certain proportion of each other's shares, but they do not become a jointly-owned entity and do not lose their independence.*

In comparison with other forms of strategic alliances, IJVs have relatively higher failure rates. Schuler (2001) points out that the examination of many IJV failures and the reasons for their establishment indicates that the quality of HRM can be a critical factor in the failure. However, the trend towards JV partnerships is increasing. This trend has been seen particularly in Asian countries (Nam, 1995) and also in former Soviet Union countries (Raffae and Eisele, 1994). Doz and Hamel (1998) believe that IJVs are typically created when the required task integration between the partners is high and the IJV structure poses a more acceptable risk in a climate of uncertainty and urgency of decision-making.

## **The growth of the IJV**

Literature on IJVs was available from the 1970s, however they became a more common and recognised form of strategic alliance from the 1980s onwards and have been increasing in number (Harrigan, 1986; Killing, 1983, Geringer, 1989) throughout the world in both developed and developing countries<sup>7</sup>.

The literature—and the growing number of reported IJVs especially in emerging economies—supports the view of the IJV as a form of strategic partnership that is favoured in developing countries, and is usually set up between an MNC and local partner. Reasons seem to be economic, legislative and environmental. In addition, the IJV is an organisational response enabling foreign partners to reduce and protect themselves from environmental uncertainty in general and country risk in particular (Meschi, 2005). Other forms of strategic partnerships such as mergers and takeovers seem to be more common in industrialised countries. Harrigan (1985, 1986) notes that an IJV draws on the strengths of its owners, therefore it should possess superior competitive abilities that allow its sponsors to enjoy synergies.

## **Common problems experienced by existing JVs**

Most companies are cautious about entering JV arrangements because of the peculiar and uncommon pressures encountered in the relationship. These pressures mainly involve managerial and national cultural differences (Brown, Rugman and Verbeke, 1989; Fedor and Werther, 1996; Harrigan, 1988; Schuler, 2001; Tsang, 1995). This view is supported by Nam (1995: 554): "The high failure rate of IJVs is attributable to the managerial complexity associated with the presence of two different, often contrasting, cultures within the same organisation".

Culture clashes often cause IJVs to be difficult to manage and can result in significant management costs associated with motivating employees to work for the company (Geringer and Frayne, 1990; Shenkar and Zeira, 1990). Yan (1998) adds that for

IJVs formed in developing or transforming economies, the combination of a turbulent political and economic environment and intercultural and inter-organisational dynamics have made managing the IJV particularly challenging. Other problems in IJVs are staffing and HRM decisions, in terms of which partner should staff the IJV and what recruitment and selection methods should be used.

Pucik (1988) conducted research on Anglo-Japanese JVs and concluded that a primary reason for poor performance was poorly designed and executed HRM strategies. This resulted in failures of the parent company to communicate its strategy adequately to its staff. Conflicting objectives of partners also contribute to the frictions and sometimes failures of IJVs (Datta, 1988; Simiar, 1980). Regardless of how failure or success is measured or determined in IJVs, there is consensus that many of the reasons can be associated with HRM (Schuler, 2001).

National cultural differences are sometimes shown as one of main reasons for failure in IJVs. Raffee and Eisele (1994) found that more than 50% of cooperative ventures can be viewed as failures. Kelly and Parker (1997) similarly reported that perhaps as many as half the IJVs formed, fail. Failure can be viewed from different perspectives; the age of the venture can be one indicator of performance, that is the older an IJV, the higher the possibility for dissolution. Raffee and Eisele (1994) attribute failures to neglect of the following factors: the importance of equal participation, the need for cultural compatibility between partners, careful choice of partners and a systematic approach to operational and strategic leadership in IJV management.

### **Types of joint ventures and ownership (ownership and management control)**

Researchers have classified and differentiated the types of IJVs based on ownership and control of the IJV, strategic focus, number of partners and resources. Killing (1983) suggested the types of IJVs were more based on their degree of ownership and autonomy. In his study of 37 joint ventures he classified them as a dominant-partner, a shared-

management or an independent JV. A dominant-partner JV has one partner that dominates the venture and its management. Shared management is where both partners actively participate in the management of the JV and independent ventures are where neither parent played a strong role.

A dominant-partner venture does not require that ownership and dominance be related. A partner can have a dominant position without actually having majority ownership. Additionally, a venture can be shared without the ownership being a 50%-50% split. However, Killing found such ventures needed to be managed as if the venture was a 50%-50% ownership. Shared management ventures were more difficult to manage as they required more care and caution in reporting, management and decision-making, especially as there were two (or more) parties involved in the processes. Killing's results showed that dominant-partner ventures were easier to manage compared to shared management and that shared management ventures had a higher failure rate compared to dominant-partner ventures.

Killing's study highlighted some important areas for better understanding the nature of IJVs and many of his strategies for success are still used widely, however, it is important to note that present day cooperative arrangements differ from the 1980's and MNC's and local companies have become more demand driven in their needs and relationships. Furthermore, Killing's main limitation for this study was that his sample was mainly generalising towards developed countries in North America and Europe and comprised only two JVs in developing countries.

Newburry and Zeira (1999) found that dominant-partner IJVs were more effective. Appell et al (1999) advised foreign companies entering China to maintain a dominant control over the IJV. Hoon-Halbauer (1994) and Killing (1983) suggested that the dominant partner should be the one that possesses the capabilities necessary to effectively run the IJV.

Hermann (1988) notices that there are six basic types of JV in practice. Based on existing literature and common applications of JVs, the main differences lie in the



relationships between the partners and the strategic focus of the JV, which ultimately make widely differing demands on JV management. These are:

- complementary technology JVs—the partners combine technologies to diversify their existing product/market portfolios
- market technology JVs—combination of market knowledge of one partner with production or product know-how of other partner
- sales JVs— producer and local partner cooperate in an arrangement which is a combination of representation and own branch
- concentration JVs—competing partners cooperate to form larger and more economical units
- R&D JVs—creating synergy by making joint use of research facilities, exploiting opportunities to specialise and standardise, combining know-how and sharing risks
- supply JVs—competitors with similar needs cooperate to safeguard supplies, reduce procurement costs or prevent the entry of new competitors.

The difference between Killing's categorisation and Hermann's is that one looks at ownership and control as the most important factors whereas the other categorises according to type of industry, activity and JV relationship.

A further examination on the typology of IJVs differentiates two dimensions: type of ownership and number of partners involved (Zahra and Elhagrassy 1994). The ownership dimension refers to the degree of equity participation by the joint venture partners. The other dimension includes the number of partners in the venture, although the majority of IJVs have two partners. Equity participation JVs require capital commitments from the partners and include foreign and private interest; non-equity JVs do not require financial commitments.

Most JV relationships consist of two partners: one foreign and one host country. In a study examining UK JV characteristics between triad (US, EU and Japan) and non-triad countries, Glaister et al. (1998) found the majority to have one foreign partner (86%). The incidence of two foreign partners was less (13%) and in 1.4% of the total were there more

than two foreign partners. There were no cases with more than four foreign partners. Although this finding is representative of a UK sample, it emphasises that a majority of IJVs have only one foreign partner. The reason for this may be understood in terms of the increasing coordination and managerial difficulties faced as the number of foreign partners in the JV relationship grows. A similar study conducted a decade earlier by Morris and Hegert (1987) exhibited comparable results: nearly 80% of international joint ventures are between two firms, 9% are between three firms and 5% between four. The trend for only two firms to participate in joint venture relationships is therefore growing.

Based on the above differentiations, it is evident there are different types of IJVs which can be classified depending on the nature of the market, industry, characteristics of organisations, resources and reasons for entering an IJV and the ownership structure.

Schuler (2001) emphasises three qualities of IJVs; they offer:

1. a cooperative rather than a competitive basis for collaboration;
2. a source of leverage, which can be both visible (land, technology, etc.) and invisible (management, transfer of knowledge, etc.);
3. structure and organisational characteristics, such as functional specialisation as opposed to shared value-added.

### **Partner Selection**

Partner selection is an important and fundamental issue in JV formation. Geringer (1988) suggests that unless two firms have previously worked together, it is very difficult to determine in advance how effectively they will be able to cooperate. He goes on to suggest that effective cooperation will be enhanced if the partners are of similar size, share similar objectives for the venture, have compatible operating policies, minimum communication barriers between the firms, the partners have compatible management teams, there is a modest level of mutual dependence between the partners, and the partners develop a degree of trust and commitment. Local partner selection is even more critical to JV success especially in the context of newly emerging economies, which are characterised by dynamic

and complex environments, as the right partner can increase the JV's adaptability, improve strategy and reduce uncertainty (Luo, 1997). Although selection of the right partner has been widely seen as crucial, limited empirical research has been reported in the literature (Beamish, 1987; Luo, 1997).

### **Control and building trust**

Success in managing IJVs can be said to lie in adeptly handling three issues: control, trust and conflict (Schuler, 2001). Control—along with trust and learning—is one of the most studied topics of IJV literature (Geringer and Hebert, 1991; Inkpen and Currall, 1998). The author's literature review will not cover the topic of learning in IJVs, although in recent times, learning and knowledge transfer has become another of the most discussed and researched areas emerging in the IJV literature.

Control is defined as a purposeful and goal-oriented activity that influences the acquisition, interpretation and dissemination of information within an organisational setting (Marschan et al., 1996). Control can be seen as the day-to-day control of the IJV. Several researchers define control of critical resources as equity ownership (the percentage that the foreign partner owns the joint venture) and non-financial contribution (technology transfer, skills, knowledge, strategic materials, know-how) (Geringer and Hebert, 1989, Harrigan, 1985; Kogut, 1988; Yan and Gray, 1994).

Inkpen and Currall (1998) offer an important clarification in the relationship between control and trust. They state that learning about an IJV partner increases trust, as trust becomes the mechanism to transfer knowledge. However, learning from an IJV partner provides a higher bargaining power, which then reduces the dependence on the teaching partner, thereby reducing trust. This is also confirmed by Nooteboom et al. (1997) who suggest that trust may become a substitute for control and as trust increases, the need for formal control mechanisms decreases.

Ownership distribution may matter less than participation in decision-making and holding operating control (Harrigan, 1986). A parent with minority ownership may have the

right to appoint key personnel, thereby giving that partner more control in the IJV's decision making process (Killing, 1983; Schaan, 1983) and may not necessarily imply majority ownership.

As noted above, in forming IJVs, partners tend to be more comfortable to go into partnership relationships with companies they know or have previously worked successfully with in the past. The underlying reason for this is the issue of trust. Although IJVs must make economic, financial and technological sense, at the same time, when entering a new and unfamiliar market, companies tend to work with familiar organisations rather than completely new partners. Inkpen and Currall (1998) define trust as a reliance on another partner under a condition of risk. They describe four dimensions of trust: communication and information exchange, task co-ordination, informal agreements, and surveillance and monitoring (which indicates a lack of trust). The positive attributes of trust are that it strengthens inter-organisational ties, speeds contract negotiations and reduces transaction costs (Bromiley and Cummings, 1993; Fischmann and Levinthal, 1991; Reve, 1990). Johnson et al (1996) add that because IJVs are unstable relationships, they require a delicate balance of organisational and management processes to create trust and the on-going capacity to collaborate. Child and Faulkner (1998) suggest that to promote trust senior executives must design management processes that provide effective ways to formulate joint strategy, create structural linkages, provide adequate communication and coordination and establish a win-win culture.

Killing (1983) indicated in addition that the size of the organisations was an important contributing factor to the success of the venture. If both companies are generally of the same size, they will also have similar structures, organisational responsibilities and objectives. If however a small firm sets up a JV with a large multinational, there is a greater chance of conflict, even though, this seems to be the increasing trend today.

## **Management Style**

MNCs with different national cultural backgrounds will have different forms and styles of management. In a study of four major Anglo-French joint ventures, Schoenberg et al. (1995) argued that management styles were closely linked to the power distance and uncertainty avoidance factors from Hofstede's national culture dimensions. They found that these dimensions determined the degree of centralisation, levels of decision-making and rigidity of the organisational system. Such differences in management styles affected the management of the IJV. One of the examples reported was the difference in the remuneration system. French remuneration was based on the hierarchical position and educational qualifications of the person. For the British, remuneration was based more on the content of the job itself. This posed problems for the overall management of the IJV.

Additionally cultural and management perceptions are more intangible factors in our perceptions of nations. For example, most technology imports and MNCs in pre-revolutionary Iran were from the West. There still is a very strong preference for products from western countries as they are perceived to be superior to eastern products. This attitude will affect partner selection for IJV partners, as some home-country partners may be perceived to be more technologically advanced owing to historical sentiments of the host country.

Another factor in the management style of the host country is that local partner IJV firms can have very diverse management styles even though they are in the same country. The private and public sectors have different styles of management and also there are indigenous forms of management in developing countries in contrast to more western forms. This issue is further discussed in Chapter 4.

## **Micro-environmental factors**

This section identifies a number of micro-environmental factors which might affect the transferability of HR policies and practices. The studies reviewed above have examined only a limited number of factors affecting the transferability of HR policies and practices:

ownership and management control, number of partners, mode of establishment, partner selection, control and trust, and size and industry. The author (based on her observations in Iran) believes there are further micro-environmental factors that may influence the HR standardisation/ localisation discussion in IJVs in Iran, which have not yet been examined by the literature. These are explained below:

- 1) Although control has been discussed, what control means to the different IJVs and what constitutes control of critical resources has not been explored. It is necessary to examine whether control of critical resources is important.
- 2) Organisational culture can affect the way in which policies and practices are implemented. If the organisational culture in a company opposes a certain policy, then it may become very difficult for that policy to remain in the company. Such organisational culture or strategy may affect the transferability of HR policies and practices. Indeed, Gerhart and Fang (2005), acknowledge the fact that many of the difficulties attributed to lack of cultural fit seen in mergers, acquisitions and IJVs may, in fact, be due as much to misfit in organisational cultures.
- 3) In Iran, where the Managing Director is seen as the most important figurehead in the organisation, the selection, personality and role of the Managing Director will have a great effect on the transferability of HR policies and practices.
- 4) Local partners are from the public and private sectors, both of which have very different management styles and practices. The management style of the local partner will greatly affect the decision to localise and/ or standardise HR policies and practices in the IJV.
- 5) IJVs located within the 120 kilometre radius of Tehran are different from IJVs located in other cities and geographic areas, as the attraction, retention and management of staff becomes more complex. The

geographic location of the IJV may be a reason to have more local or more standard HR policies and practices.

- 6) Historically Iran has favoured relations with the US, UK, Germany and France. The perception is that these countries provide leading-edge and high-quality products. This may be reason to accept standard MNC HR policies and practices from these countries.

## **2.5 Gaps in the Literature and Future Research**

An examination of the literature shows that international HRM is culture specific and needs to take account of institutional and cultural frameworks. This research is the first to link the role of the MNC, and macro- and micro-environmental factors to the transferability of HR policies and practices to IJVs. There is insufficient research and a lack of consistency in this area of academic discourse. The literature on transferability of HR to IJVs has been limited to an examination of the compatibility of HR practices. Most of the literature on HR transferability focuses on MNCs and their subsidiaries. There is a lack of consistent literature on IJVs. As the IJV is a growing form of partnership, and one which is known to be more complex than other forms of strategic alliances, more research is needed on this topic.

The internationalisation of HRM is a topic attracting more research, however the field still appears fragmented. For example, the degree and quantification of polycentrism across companies, policies and practices is still not clear. Although in many organisations this seems to be the trend, what has influenced polycentrism requires more research.

The literature on macro-environmental factors, especially with regards to HRM in developing countries, is growing and the author believes that this research will add to this body of knowledge. The framework proposed by Budhwar and associates (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002) examines cultural, organisational and

institutional factors in the development of HRM in various countries. The author adds to this discussion by identifying new dimensions and factors in the transferability of HR policies and practices. Future research might look at testing the national framework, as proposed by Budhwar and associates (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002), by referring to other countries and finding means of measuring the different factors.

Although sound research has emerged on micro-environmental factors, especially relating to IJVs, there is insufficient information on developing countries and only a limited handful of influencing factors have been identified. Further research is needed to study and compare other countries, especially developing countries, to increase the knowledge of HRM and IJVs. Although this field has been studied extensively over the past five decades, the literature is still lacking in content and context.

## **2.6 Conclusions and hypotheses**

HRM is strongly influenced by culture and culture-building institutions. Here the question posed is: how do these macro, micro-environmental and MNC factors affect the transferability of HR policies and practices to IJVs? It has been seen from the literature that the socio-economic, political, legal and cultural factors in a host country will affect the establishment and progress of IJVs. In some cases, an IJV may be the only form of joint cooperation and partnership by which an MNC can enter a new country. Changing laws and regulations in an unstable environment and a lack of resources and infrastructure will make it more difficult and complex for the IJV to operate in a new market. With these complexities and uncertainties in the new market, MNCs may decide to localise their HR policies and practices as they will feel uncertain about the market and country. If the macro-environmental differences between the home and host countries are great, the MNC might prefer to accept local HR practices. Also, the different strategies in HRM in a developed as



opposed to a developing country, and the level of internationalisation of host and home country in relation to HRM, will cause localisation in some practices that are more culture specific and standardisation in policies that are more company-wide.

The literature supports the view that the more diverse the macro-environments of home and host country, the more localised HR policies and practices will be (Beechler and Yang, 1994; Schuler et al., 1993). Wasti (1998) suggests that on account of the diverse macro-environments in developing countries, MNCs will adopt a polycentric strategy, again taking local HR policies and practices into consideration.

The author feels, however, that the unpredictability and diversity of the environment and the different management frameworks of developing versus developed countries, will cause more tensions and frictions in the IJV relationship. Therefore, establishing an IJV in these diverse conditions will need better planning and full consideration of the critical factors will be required before and during set-up. As has been shown from this literature review, there are a number of factors which MNCs take into account before forming an IJV: the economic, political, social, cultural, legal, technological frameworks; governance; economic freedom and government policies. At the same time, the most important factor in attracting foreign investors is profitable business opportunities.

Based on the analysis of the literature, the following hypotheses may be formulated with regards to the effect of the environments on the transferability of HR policies and practices to IJVs:

- H1)** The more unstable the macro-environment of the host country (politically, economic, governance, legally), the higher the tendency of the MNC to localise its HR policies and practices to the IJV.
  
- H2)** The more diverse the national culture in the host country, the more complex the management of the IJV will be and this will cause the MNC to have a higher tendency to adopt local HR policies and practices in the IJV.

- H3)** The level of development of HRM between partners will influence standardisation or localisation. If the difference between them is large and the host country has a different view of HRM, it is expected that the MNC will transfer standard HR policies and practices. If the difference in HRM is small between MNC and host country, then the MNC will localise and adopt local practice where it fits better.
- H4)** The MNC will adopt different HR policies and practices to fit in with the cultural and institutional frameworks in the host country (a polycentric strategy).
- H5)** The MNC's international experience (age, size and international experience) will cause the MNC to be more adaptive to the local environment (polycentric).
- H6)** The partner with the higher control, in terms of ownership control, control of critical resources or management control of the IJV will control the decision of HRM transfer.
- H7)** If the local partner is a private entity, there will be greater acceptance of MNC standard HR policy and practice. If the local partner is a public and state-owned entity, there will be more pressure in the decision to standardise or localise HR policies and practices.
- H8)** Partner selection and trust will be significant in the decision to transfer HR policies and practices. If partners have worked together previously and have trust, the decisions to transfer HR policies and practices will be easier.

- H9)** HR practices must be looked at separately, as there will be variation (standard or local) from one HR practice to the next.
  
- H10)** The selection of the Managing Director of the IJV will influence the decision to transfer HR policies and practices.
  
- H11)** The roles of the MNC, the macro- and micro-environment are equally important in the transferability of HRM.

Although the research is inductive and is generating theory, the author believed the use of hypotheses (which would normally be used in quantitative research) would help to identify the issues under investigation. The significance of these hypotheses to the research is explained further in Chapter 3 dealing with methodology.

## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.0 Introduction**

Research in business is culture specific. In some countries, research is accepted by the business community and there is an open-minded approach—companies are familiar with management research and feel comfortable about sharing their company policies and practices with researchers. In others, however, such research is viewed with suspicion. Managers and companies are not happy with an external researcher entering their organisation and probing information that is intended mainly for internal use. This suspicion of research is seen more in developing countries and is true of Iran. A number of problems arose due to the sensitivities to research in Iran by managers in various organisations. Given these constraints, the research methodology for this study needed to have a very clear and concise objective and structure to reduce suspicion, foster relationships conducive to further research and allay the suspicion of the companies by sharing as much as possible with the interviewees.

This chapter shows the different stages of the development of the research methodology and strategy—how it was designed and implemented with explanations of why a particular methodology of research was chosen, in terms of both the epistemological discussion and access to the case studies in Iran. Problems encountered in conducting research in Iran and solutions are identified. Finally, the research methodology and approach is examined for its success in providing results.

### **3.1 Definitions of Research Methodology**

There are many different ways to define research and there seems to be no apparent consensus. Buckley et al. (1975: 26) suggest an operational definition of research, requiring that:

*it be an orderly investigation of a defined problem; appropriate scientific methods be used; adequate and representative evidence be gathered; logical reasoning; uncoloured by bias, be employed in drawing conclusions on the basis of the evidence; proof of the validity of the reasonableness of their conclusions; the cumulative results of research in a given area yield general principles or laws that may be applied with confidence under similar conditions in the future.*

Hughes and Sharrock (1997) state that research is carried out to discover something not already known, and that different research methodologies should be developed with scrupulousness, rigour, a careful weighing of the evidence and arguments and methodically. However, from the various definitions, Amaratunga et al. (2002: 17) note a general agreement that:

*“research is a process of enquiry and investigation; it is systematic and methodological; and research increases knowledge”.*

Research relies on facts, data, hypotheses, experience, laws, concepts and principles, and research methodology concerns the procedural framework within which the research is conducted (Remenyi et al. 1998). When choosing an appropriate methodology, it is necessary to acknowledge the epistemological debate on how best to conduct research.

### **3.2 The Philosophy of Research**

The two main schools of thought have completely different enquiry paradigms. Logical positivism (or logical empiricism) uses mainly quantitative and experimental methods to test hypothetical-deductive generalisations (Amaratunga et al. 2002). Among the aims of logical positivism is the search for causal explanation and fundamental laws, whereby the whole picture is reduced to the simplest possible elements in order to facilitate analysis (Easterby-Smith 1991; Remenyi et al. 1998). Logical positivism uses the deductive reasoning approach, which is a theory-testing process that starts with an established theory or

generalisation and seeks to see if the theory is applicable to specific instances (Hyde, 2000).

The other school of thought favours phenomenological inquiry (interpretive science) which uses qualitative and naturalistic approaches to inductively and holistically understand human experience in context-specific settings. Phenomenological inquiry tries to understand and explain phenomena in their natural settings rather than search for external causes or fundamental laws (Easterby-Smith 1991, Remenyi et al. 1998), and thus uses an inductive reasoning approach that starts with observations of specific instances and seeks to establish generalisations about the phenomenon under investigation (Hyde, 2000). The accepted view is that quantitative research is in line with a positivist paradigm of science and qualitative research subscribes to a relativist paradigm (Hyde, 2000). Quantitative data are characterised by assumptions that human behaviour can be explained by social facts that can be investigated by methodologies employing the deductive logic of the natural sciences (Horna, 1994). Quantitative studies look for distinguishing characteristics, elemental properties and empirical boundaries and tend to measure how much and how often (Nau, 1995). Among the strengths of quantitative methodology are that it allows replication and comparison. There is a separation of the observer and the observed; the subject under investigation is measured through objective methods rather than through subjective methods of reflection and sensation; hypotheses are formulated for subsequent verification; and fundamental laws and causal explanations are facilitated in the analysis (Easterby-Smith 1991). Quantitative data also allows large-scale data collection to be conducted at a generally reasonable cost and provides statistical evidence. However, the main criticism of quantitative data is that deeper underlying meanings and explanations are not addressed and record present facts and take snap-shot pictures at a specific moment.

The collection of qualitative data has been advocated as the best strategy for discovery, for exploring a new area and developing hypotheses. It is also useful when one needs to supplement, validate, explain, illuminate or reinterpret quantitative data gathered from the same setting (Amaratunga, et al. 2002).

A key distinction between qualitative and quantitative methodologies is that the quantitative approach describes the general characteristics of a population but ignores the details of each particular element, whereas the qualitative approach seeks to explain each of the particular elements. Qualitative methods allow the researcher to study issues in depth and can produce a wealth of detailed data on a small number of individuals (Patton, 1991). A single case, if studied in sufficient depth and with insight, can provide the basis for a theoretical explanation of a general phenomenon (Hyde, 2000). This makes the approach especially appropriate to the type of research that was feasible in this study. Qualitative research is mainly conducted through intense and prolonged contact with a field or life situation. It includes situations that are typically banal or normal, reflecting the daily lives of individuals, groups, societies and organisations (Miles and Huberman, 1994). Yet qualitative data are rich and holistic, with the strong potential to reveal complexity and may be gathered over long periods, thus allowing processes to be studied. Another main feature of qualitative data is its flexibility—data can be collected at various times as the study proceeds.

When designing research methodology, the main issue is not the debate on the positivist or realist (phenomenological) approach, but whether sensible and calculated decisions have been made about the purpose of the study, the questions being investigated and the resources available (Amarantunga et al. 2002). Before choosing the research strategy and the methods for gathering and analysing data, one needs first to examine the research situation. Each research strategy has its own specific approach for collecting and analysing empirical data and hence each strategy has its own strengths and weaknesses. Yin (1994) suggests that the choice of strategy should depend on the type of question posed, the control over the actual behavioural elements, and the degree of focus one has on historical or contemporary events.



### **3.3 Research Paradigm Relevant to Author's Research**

This study is based on inductive reasoning. The underlying rationale in identifying the basis for the research strategy was the following:

- 1) Research and findings should be both relevant (defined as usefulness of a study for practitioner decisions and actions) and rigorous (defined as methodological and logical to promote confidence in its findings) (Thomas and Kilmann, 1983). The research should provide both theoretical value and practical interest (Walton, 1985). In this case, the research needed not only to be original, to have logical and methodological value but more importantly to be useful to industry and managers—specifically Iranian and foreign-based managers in IJVs and organisations in Iran. An inductive approach was necessary as the research is concerned with theory building.
- 2) The field of study requires in-depth research, identifying and developing hypotheses based on literature and observation, as the research unfolds and drawing conclusions from the findings.
- 3) One major factor in identifying the research strategy was that research is not openly accepted in Iran but is viewed with suspicion and reluctance by Iranian organisations. Therefore it was necessary to find a methodology that would enable a softer and more flexible approach to gathering data. The research topic concerns the different factors that affect the transferability of HR policies and practices between organisations and environments. Such a study has never been attempted in Iran, and the main deficiencies in this field being the lack of management research and the lack of acceptance of management research, both academic and practitioner in Iran. Research is a fairly novel concept with its purpose still unclear to many managers. It is seen as an invasion of privacy, requiring access to confidential information. It is not perceived as a tool to enhance knowledge or improve practices. Management research is particularly

sensitive as organisations feel a threat in sharing or discussing company information. Given that the Iranian psyche overall is rather suspicious and conspiracy-minded (Namazie, 2000) it is not surprising that Iranian organisations are reluctant to welcome research.

### **3.4 *Determination of Research Methodology***

Given the nature of the study and research situation, the methodology proposed is qualitative research. There are, however, some problems associated with conducting qualitative research. Wright, Lane and Beamish (1988) broke these into two categories: methodological and practical. Issues such as language barriers, cultural bias and the non-theoretical nature of the research are among the methodological problems encountered. And, when data have been collected, the researcher faces the practical difficulties of collating and synthesising the information.

Some common arguments both for and against qualitative research are listed below:

- 1) Quantitative methodology is not the best means of understanding the complex and unstructured problems in international management. However, the unsystematic nature of the field of study here also makes the topic difficult to study by qualitative means. To compensate, researchers constantly have to revise their hypotheses as their research progresses, a technique called negative case analysis, which takes the place of statistical analysis (Kidder, 1981). Kidder maintains that this technique allows qualitative researchers to make a more stringent analysis than statistical analysis because the latter tolerates no deviation from its rigid approach.
- 2) Parke (1993) in his research on IJVs shows that, although many data sources of large-sample, multivariate statistical studies capture the hard concepts, they do not

touch on the softer concepts required to better understand why the factors are related.

- 3) Another common criticism of qualitative research is that it allows researchers to go on a fishing trip and choose only data that fit with their view or to interpret the data in the way that they want (Wright, 1996). However, the counter argument is that good qualitative research rigorously searches to seek a negative case and to avoid any bias in the interpretation of the data.
- 4) As so many factors are interrelated, a clear picture of the research problem and solutions never emerges. This is a problem to be dealt with in the design phase of the study. If the case study is chosen with due consideration of the relevant different factors, then a clear picture of what is being researched and of the findings, should emerge.
- 5) A further problem lies in analysing the data. Because qualitative data are so rich, it is sometimes difficult for the researcher to decipher and analyse the material to determine what is necessary to the research topic. This can be overcome by the researcher presenting a clear analytical framework from the outset.
- 6) Language barriers can be a source of problems, leading to bias and to unreliable information to be recorded. It is important to ensure that the language used in international management research is deciphered by a team of international researchers (Daniels, 1991; Boyacigiller and Adler, 1991; Eisenhardt, 1989) or by hiring a good interpreter or translator. Nevertheless, research should be conducted and interpreted by people who understand the local language and cultural concepts of the country.
- 7) All researchers bring particular assumptions, biases, values and beliefs to their studies, from their own cultural backgrounds. Even when these assumptions and biases are recognised, it is difficult to guard against them. Researchers must be on constant alert for alternative interpretations of what they hear or observe. This is where the multiple sources of data that the qualitative researcher uses are important.

- 8) A final main drawback of qualitative research is that it tends not to build on established theory. To counter this, it is important to keep an open mind, to start the process with assumptions rather than hypotheses and to allow room to revise these as the data indicate. Schatzman and Strauss (1973) state that the field researcher is one who finds it more important to link his or her findings to other discoveries rather than nailing it down; in other words, it is important to link and place the findings in context, logically, theoretically or empirically before measuring or testing them.

### **Types of qualitative data**

Different authors use various terms for qualitative data: *descriptive study* (Clark, 1991), *field research* (Schatzman and Strauss, 1973), *participant observation* (Jorgensen, 1989), *case study* (Yin, 1984) and *naturalistic research* (Kidder, 1981). In the context of this research, the author follows Wright (1996) in taking qualitative research as an attempt to understand and collect data in its natural setting rather than making counting and statistical techniques the central issues. In qualitative research, general data- collecting methods include the in-depth interview, participant observation, case studies, and techniques such as content analysis, formal and informal interviewing and videotaping.

### **Data collection methods: ethnography**

Ethnography is a form of qualitative research and overlaps with *participant observation*, *qualitative method*, and *case study* (Hammersley, 1998). The key feature of the ethnographic approach is its naturalist inquiry, using methods such as participant observation within a predominantly inductivist framework (Gill and Johnson, 1997). Brannen (1996) points out that ethnography is the study of culture, whereas ethnographic work has begun to focus more on organisations as culture-bearing milieux (Marcus and Fisher, 1986). In ethnography, the focus is more on the manner in which people interact and collaborate in observable and regular ways (Gill and Johnson, 1997). Although there is a wide range of data-collection methods, ethnographers tend mainly to use observation and semi-structured

interviewing, rather than documentary and survey data (Gill and Johnson, 1997). Participant observation is usually a central feature of an ethnographic study, with observers attempting to learn about the culture under study and interpret it in the way its members do. Observing them in real and actual settings gives a clearer picture of the way they behave.

Waddington (1994) describes participant observation as best suited to projects that emphasise the importance of human meanings, interpretation and interactions, and where the phenomenon under investigation is generally not well understood and it may be assumed that an insider perspective would enhance existing knowledge.

The interview is, without doubt, the most widely used form of qualitative research method. The depth interview as defined by Webb (1995: 121) is;

*“... an unstructured personal interview which uses extensive probing to get a single respondent to talk freely and to express detailed beliefs and feelings on a topic”*

Among its advantages are the fact that it is highly flexible, can be used almost anywhere, is capable of producing data of great depth and provides greater control over respondent selection allowing for more flexibility and content in the process of inquiry (Cassell and Symon, 2004; King, 1994). Kvale (1996) points out that the purpose of the interview is to gather descriptions of the world of the interviewee with respect to interpretation of the meaning of the described phenomena.

### **Data analysis techniques**

Once data have been collected, the next stage, of equal importance, is analysing the information. Miles and Huberman (1994) define qualitative data analysis as consisting of three activities: data reduction, data display and conclusion drawing. Data reduction is the process of selecting, focusing and simplifying the data. This is a continuous process that helps the researcher to decide on the conceptual framework: which cases, questions and data-collection approaches to use. The most frequent form of data display is extended text. Conclusion drawing is usually done after all the data are gathered and coded.

Similar to Miles and Huberman's (1994) definition of data analysis is the technique called *content analysis*. Other techniques in analysis of qualitative research are *pattern matching* (Yin, 1994), *explanation building* (Pacitti, 1998) and *time series analysis* (Yin, 1994).

For this research, the author chose to use content analysis. Content analysis classifies textual material, reducing it to more relevant, manageable chunks of data (Krippendorff, 2003). Content analysis uses procedures to make valid inferences from text. These inferences are about the sender(s) of the message, the message itself or the audience of the message. The rules of this inferential process vary with the theoretical and substantive interests of the investigator. There is no right way to carry out content analysis. Instead, investigators must judge what methods are most appropriate for their substantive problems (Weber, 1990).

A central idea in content analysis is that the many words of the text are classified into many fewer content categories. Each category may consist of one, several or many words. Words, phrases or other units of text classified in the same category are presumed to have similar meanings. In order to make valid inferences from the text, it is important that the classification procedure be reliable in the sense of being consistent (Weber, 1990, p. 12). Content analysis can be especially useful in coding open-ended interview questions, for reflecting on cultural patterns of groups, institutions and societies and for revealing the focus of individual, group or societal attentions. The central problems in content analysis originate from the data reduction process where the reliability and validity of data reduction is questioned. Ambiguities may arise from the way in which words, phrases or paragraphs are coded and categorised. For this reason, when using a content analysis approach it is important to keep a consistent and methodological sequence.

### 3.5 Qualitative Research Rationale in this Study

Glaser (1978: 6) notes that:

*Grounded theory method although uniquely suited to fieldwork and qualitative data, can be easily used as a general method of analysis with any form of data collection: survey, experiment, case study. Further, it can combine and integrate them. It transcends specific data collection methods.*

According to the basic principles of grounded theory, once an area of research has been identified, the researcher should enter the field as soon as possible. Consequently the literature is not exhausted prior to the research, as in many studies, rather it is consulted as part of an inductive process of data collection, simultaneous analysis, and emergent interpretation. In other words, the developing theory should direct the researcher to appropriate extant theories and literature that have relevance to the emerging, data grounded concepts. A common misconception of grounded theory is that the researcher is expected to enter the field ignorant of any theory or associated literature relating to the phenomenon and wait for the theory to emerge purely from the data (Goulding, 2005). Nevertheless, this was not necessarily the case. Indeed Glaser and Strauss (1967: 253) state that:

*The core categories can emerge in the sociologist's mind from his reading, life experiences, research and scholarship; [furthermore] no sociologist can possibly erase from his mind all the theory he knows before he begins his research. Indeed the trick is to line up what one takes as theoretically possible or probable with what one is finding in the field.*

The use of the grounded theory approach involves a delicate balancing act between drawing on prior knowledge while keeping a fresh and open mind to new concepts as they emerge from the data. This means using the literature differently as the process evolves, getting closer to direct sources as the conceptual categories take shape and gain explanatory power. In addition to the use of literature grounded theory differs in a number of respects from other qualitative methodologies, particularly with regard to sampling. According to

Coyle (1997), most sampling is purposive and defined before data collection commences. In the case of grounded theory, sampling begins as a "commonsense" process of talking to those informants who are most likely to provide early information. This information is then analysed through the application of open coding techniques, or line-by-line analysis (looking for words and sentences in the text that have meaning), which should help to identify provisional explanatory concepts and direct the researcher to further "theoretically" identified samples, locations, and forms of data. According to the original rules of grounded theory, the researcher should not leave the field and stop sampling until saturation is reached, or when no additional information is found in the data. On this subject, one of the appeals of grounded theory is that it allows for a wide range of data, the most common of which are in-depth interviews, observations, and memos which describe situations, record events, note feelings and keep track of ideas.

Qualitative research methodology for this particular area of study was chosen for the following reasons:

- 1) The study is concerned with the field of international management and, as many authors have pointed out, international management is still a field that lacks theoretical understanding (Adler, 1993; Black and Mendenhall, 1989; Miller, 1993; Nasif et al., 1991; Sekaran, 1983). This provides one of the strongest reasons for advocating qualitative research, since it is recognised as the most robust way of generating theory (Glaser and Strauss, 1967; Wright, 1996).
- 2) Glaser and Strauss (1967) in their work on grounded theory point out the different domains of theory generation and theory verification. For theory generation it is more appropriate to use qualitative methods, whereas for theory verification, quantitative methods are more suitable. The process of data collection and analysis and theory generation are much more closely linked in qualitative than in quantitative research (Glaser and Strauss, 1967, Jorgensen, 1989);



- 3) International management involves messy problems and complex issues and therefore qualitative research gives the researcher more flexibility, has the advantage of richness of data, and leads to more meaningful results (Parke, 1993; Wright, 1996). Flexibility is also necessary when approaching the sensitive topic of the acceptance of research in Iran;
- 4) The area of study is new, therefore, it is appropriate to say that the study will generate theory;
- 5) The research deals with the softer aspects of international management and for this it is easier to use a qualitative research approach (Parke, 1993);
- 6) In order to constantly question, revise and narrow down the scope of research, it is continuously questioned in terms of its methodology, validity, reliability and control for bias. The process of negative case analysis is used (Kidder, 1981);
- 7) Language barriers are overcome because the author is Iranian but has also been educated in the West and speaks both English and Persian and is familiar with both cultures;
- 8) Biases and assumptions in qualitative research are minimised through interviews with a wide cross section of managers and practitioners, foreign and Iranian, who are involved in Iranian management, HRM and JV management. Many also have diverse experience of working in foreign countries.

### ***3.6 Research Stages and Duration***

To reflect the inductive and exploratory nature of the study, two research stages were identified. Research stage one focused on the Iranian macro-environment (national and local environment) as it was necessary first to understand the environment in which IJVs are operating. Two interview templates were designed in this stage: the first, phase (a), was to

identify the environment for setting up JVs or for investing in Iran (Appendix II) and the second, phase (b), was to help understand Iranian management styles, the national culture and HRM (Appendix III). The objective of research stage one was to provide the framework for the design of research stage two.

The objective of research stage two was to examine the operating environment of IJVs: the macro-environment including national culture and MNC policy; and the micro-environmental factors within the IJV. Information about these backgrounds was used to understand the transferability of HR policies and practices and measure the degree of influence exerted by the macro-environment, the micro-environment, the role of the MNC and the separate factors within them. Three interview templates were designed to capture this information as can be seen in Appendix IV, Appendix V and Appendix VI. Each of the research phases built on the research propositions and the newly generated information assisted in developing the next interview template. The research was conducted over five years, from 2000 to 2005, and in four distinct phases as shown in table 4 below. Secondary research, the literature review from 1998-2000, covered the literature on the macro-environment of IJVs, international business, cross-cultural management, national culture and HRM. In 2000 the primary research (research stage one, phases (a) and (b)) was conducted, examining the Iranian macro-environment, national culture and Iranian HRM. Between 2000 and 2002 the author continued examining literature on IJVs, HRM, the micro environment of IJVs based on the outcomes from research stage one and started formulating the next research stage.

**Table 4: Research stages 1 and 2 and dates for conducting primary and secondary research**

	<b>Secondary research</b>	<b>Primary research</b>
<b>Research Stage 1</b>	1998-2000	2000
<b>Research Stage 2</b>	2000-2002	2002 (phase a)
	2003-2004	2004-5 (phases a, b and c)
	2005-2006 (write-up, include new literature)	

Research stage two was conducted in 2002 to identify and locate IJVs as potential case studies for future research. This stage proved difficult as obtaining accurate and valid information from the Ministry of Finance and Economic Affairs was challenging. The author also tried obtaining information through other sources such as chambers of commerce and embassies to discover the names and lists of foreign companies operating in Iran. However, many lists were not up to date, addresses and contact details were incorrect. Through various means of convenience-based sampling, networking and cold calling, the author obtained access to 12 IJVs. First interviews, phase (a), with these IJVs were based on a broad interview template (semi-structured interview, Appendix IV) examining the features already described but also, more importantly, ascertaining if these IJVs would fit the research criteria and if they were willing to be studied further. Eight of these IJVs were chosen as relevant for further research. For the purpose of reliability, only the eight IJVs have been included in research stage 2. Following this research stage, the author continued to analyse and refine the findings. Throughout 2004 and 2005 the final research stages, phases (b) and (c), (Appendix V and VI respectively) were conducted with the same eight case studies.

### **Preliminary Research and Data Collection (Research Stage 1)**

This research stage gathered information on the macro-environment in which IJVs are set up. Two phases were identified: phase (a) looked at the political, economic, social, legal and cultural issues of setting up IJVs in Iran, phase (b) looked at the management styles of local partners in private and public sector Iranian companies, the national culture and the development, knowledge and application of HRM in these companies.

The first stage of research was to interview selected managers, both Iranian and foreign, who had some form of direct involvement with JVs in Iran and other countries. The purpose of this research stage was to understand why IJVs are formed and how the existing environment in Iran supports IJVs. Macro-environmental factors were examined by questioning about which factors were conducive and which challenging to establishing IJVs

in Iran. This included gathering information on the political, economic, social, legal and cultural environment in Iran. With the foreign participants, the author maintained the flexibility in the interview template to allow the participants' discussion and view points regarding management and other factors influencing the setting up of IJVs in Iran. A broad semi-structured interview template (Appendix II) was used, which examined the interviewee's background information, his/her experiences and managerial expertise, country of origin and work experience, experience with IJVs and the problems encountered in Iranian IJVs with particular emphasis on the internal and external environments, challenges and threats. The author conducted one-hour long semi-structured interviews with ten companies and individuals with the following backgrounds:

- one interview with the Iranian Ministry of Economy and Finance, Joint Venture Advisory Board
- one interview with the Iranian Chamber of Commerce, Joint Venture Advisory Board
- one Interview with the German Head of the German-Iranian Chamber of Commerce
- two interviews with foreign companies involved in IJV relationships
- three interviews with Iranian companies involved in IJV relationships
- two interviews with expatriates with previous working experience of setting up IJVs in other countries.

The complete list of interviewees is provided in Appendix I.

This information proved valuable in understanding the present climate for IJVs in Iran and also allowed the author to gain a better understanding of the different environments in which IJVs are set up, some countries allowing easy entry and access for the foreign partner, others such as Iran, proving more bureaucratic and challenging.

The next research stage was to collect data on management styles in Iran, national culture and the understanding and application of HRM in Iran to determine whether this was seen as a personnel function, and the difference between public and private sector companies. Although the author is herself Iranian and has worked in Iran since 1993, it was

important to get a wider perspective from other Iranian managers regarding the style of management in Iran and the influencing factors from the macro-environment and micro-environment pertaining to Iranian management. This was achieved through conducting an additional ten semi-structured interviews (refer to Appendix I for list of interviewees and Appendix III for interview questions) with a cross-section of Iranian managers in the private and public sector, including those applying traditional Iranian management and those who had been educated abroad and had returned as second-generation managers taking over their family businesses, young and middle-aged managers.

The companies were selected using the author's existing contacts to Iranian industry, recommendations from successful Iranian managers and information from companies listed on the Tehran Stock Exchange. There were six Iranian managers from industry, two university professors in organisational behaviour, management and HRM and two foreign representatives belonging to chambers of commerce (German and Japanese). Again this information has proved valuable in understanding management and the development of management in Iran; through its origin to where it has evolved.

### **Analysis of Data**

Using content-analysis techniques, the author identified broad themes that emerged from both interview templates. There was some overlap between the findings of the two interview templates, but with content analysis, this was separated. These themes became the headings for the further analysis of the data. The author then defined the recording units in which themes, phrases and words were recorded. The categories were then defined using both the data and broad questions. During this stage information was manually decoded and analysed, as some of the information was relevant to developing the research proposition further and to providing the framework for the macro-environmental factors which affect IJVs in Iran. In addition, much of the information was general and useful in enhancing the author's own knowledge base on Iran. Once the frequency of statements had been recorded, conclusions were drawn from the data.

The final decision was how to use the data from the conclusions and if they would have a direct impact on the next stage of research. Where they did have a direct impact, this was used in structuring the next interview template for the second stage of research with the IJV companies.

From this first research stage, phases (a) and (b), the following categories of information were identified:

- Reasons for entering IJVs were identified, both from an Iranian and foreign perspective,
- The main macro-environmental factors which affected the establishment of IJVs in Iran were identified, These included factors such as:
  - the socio-cultural, economic, political and legal settings in Iran
  - the influence of the above factors on establishing IJVs in Iran
  - national culture dimensions in Iran
  - management styles in Iran (public-sector versus private-sector)
  - the level of development of HRM or personnel management in Iran.

The findings from the first stage of research are discussed in Chapter Four, the Iranian context.

### **Main research and data collection (stage two)**

With this primary knowledge and background information, the author proceeded to examine the main topic of research for this study which involved IJVs, the macro- and micro-environment, MNC policy, HR policies and practices within the IJVs, and the degree of influence of the environment on HR transferability. Following an extensive literature review on the internationalisation and development of HRM, international business and management of IJVs, and the transferability of HR policies and practices, the research stages below were conducted:

The second stage interviews were conducted in three phases:

Phase (a) included in-depth interviews with eight IJVs using a semi-structured questionnaire (Appendix IV). There were two main purposes for this phase of research— first, to ensure accuracy and reliability in defining the Iranian context and setting up a IJV from the view point of IJVs, and second, to start identifying IJVs that had the appropriate criteria to be studied throughout the research phases. These criteria were:

- The MNCs had to be of a certain size and level of internationalisation,
- The MNC had to have IJVs in other geographic locations so that they had previous the experience of setting up IJVs or strategic alliances,
- The foreign partners had to be one of Iran’s main or potential trading partners or a geographic neighbour,
- The IJV had to have a high foreign ownership (not below 49%),
- It was also necessary for the IJV to be at least one year old. Therefore information on the IJV itself was necessary.

The questions relating to the macro- and micro-environmental factors were developed using the data from the first stage of research (20 interviews with foreign and Iranian managers, Appendix II and III) and also those factors identified through the literature review, but were more specific to the IJV. Phase (a) covered questions concerning the effect of the macro- and micro-environment on setting up the IJV. These included questions on the nature of the IJV, its ownership structure, control of critical resources, partner selection, the effect of the socio-cultural, political, economic, cultural and legal environment on the IJV, the management style of private versus public sector Iranian companies, the development of HRM in Iran, national culture differences, effect of nationality and country of origin, effect of selection of the Managing Director and trust between partners. Details of IJVs, people interviewed, their nationality and year of interview is provided in Appendix I.

Twenty-two interviews were conducted with eight IJVs. These were identified as IJVs which had the right criteria and accessibility to be studied consistently throughout all phases

of research stage two. Appendix I includes information on the participants including their nationality and level of international experience. It was assumed that managers with more international experience would have greater flexibility in dealing with different cultures. Twenty- two interviews were conducted at two different times; in 2002 and 2004/5. Phase (a) interviews done in 2002 were repeated and updated with either new managers or additional questions in 2004/5, thus ensuring reliability of the research process. In 2002, twelve IJVs were identified, however only eight were appropriate to study further. In the first instance General Managers (GM) or Country Managers (CM) of the IJV, either from the Iranian partner side or from the MNC's side, were targeted. If these were not available, HR, administration or finance managers were substituted or anyone who knew the IJV well and had been involved since its set up. In general, the author tried to target the expatriate in the IJV first, as they were usually more relaxed about research than their Iranian counterparts. In each of the preliminary IJV interviews, following an explanation of the research aims, and objectives and if the IJV proved to be a suitable research object, the author asked whether the IJV management would be interested and willing to participate in this research. The author explained that a number of further in-depth interviews would be required with managers from both sides of the IJV and that all information gathered and transcribed would be shared with the participant managers. Each interview took a minimum of two hours. Twelve of the interviews were tape-recorded and transcribed with the permission of the participants. On several occasions, managers were uncomfortable with the interview being tape-recorded, so the author took notes manually. The remaining ten were manually recorded and transcribed. The final transcripts were presented to managers and their approval sought for the text.

Although participant observation was discussed above as a research method in the IJVs, the mention of participant observation caused many of the IJVs to feel reluctant to continue the research, for this reason the author did not continue exploring the possibility of using participant observation in the research process.



The foreign partners were generally easier to approach and more willing to share information than their Iranian counterparts. National culture seemed to have had an influence on the access to IJVs, as the author found IJVs with eastern partners shared the same concerns as their Iranian counterparts, but western partners were more forthcoming in sharing information and granting an interview to the author.

Either at the beginning or at the end of the interview, the author obtained information about each respondent's professional experience, especially overseas positions and experience (this information is provided in Appendix IX). In one of the French IJVs, the author was presented with a written curriculum vitae. In all other IJVs, respondents just gave a quick verbal account of their international experience and positions held which is reflected in Appendix I.

Four of the IJVs either did not meet the above criteria or did not wish to participate further. Among these four were also IJVs that first agreed to participate but who later had some difficulties within the IJV or management. These four have been omitted from research stage two in order to maintain consistency throughout the research.

Phase (b) included interviews with the eight JVs which were selected according to:

- Country of origin of foreign partners (a combination of western and eastern countries)
- Foreign partners (must be one of Iran's main trading partners)
- Iranian partners (must be from both private and public sector)
- MNCs (must be of global standard and well known and the level of internationalisation of the MNCs must be high)
- Foreign ownership (must be high, minimum 49%)
- Industries (should be similar)
- Access (availability of the IJV's management team).

Table 5 shows the final eight joint ventures and table 6 shows the names of the IJVs, MNCs and the local partner. The terminologies in table 6 are referred to throughout the remainder of the thesis.

**Table 5: Eight IJVs studied in depth throughout research stage two**

	Registered name of IJV	Countries	Iranian		Ownership Structure	Industry	Date registered
			Foreign	Public			
1	PASH	Anglo Dutch	√		Anglo-Dutch 49% Iranian 51%	Oil and lubricants production	2001
2	Castrol Iran	British		√	British 49% Iranian 51%	Oil and lubricants production	2001
3	BehTotal	French	√		French 49% Iranian 51%	Oil and lubricants production	2001
4	Schneider Electric Industries (SEI)	French		√	French 31% Two Iranian partners 69%	Electric circuit production	2001
5	HenkelPakvash	German		√	German 60% Iranian 40%	Detergents	2000
6	SWEDEC	British		√	British 70% Iranian 30%	Wellheads for oil industry	2001
7	ASPC	South African	√		South African 50% Iranian 50%	Polymer plant	2003
8	Savola Behshahr	Saudi	√		Saudi 49% Iranian 51%	Edible oils	2002

**Table 6: List of final eight IJVs with names of the MNC and local partner**

	Registered name of JV	Name referred to in text	Name of MNC	Name of Local partner
1	Pars Oil and Shell (PASH)	PASH	Shell	Pars Oil
2	Castrol Iran	Castrol Iran	bp	Mr. Moussavi
3	BehTotal	BehTotal	Total	Behran Oil
4	Schneider Electric Industries (SEI)	SEI	Schneider Electric	Mr. Nassiri
5	HenkelPakvash	HenkelPakvash	Henkel	Pakvash
6	SWEDEC	SWEDEC	Cameron	Mr. Yamini
7	Arya Sasol Polymers Co. (ASPC)	ASPC	Sasol	National Petrochemical Corporation (NPC)
8	Savola Behshahr	Savola-Behshahr	Savola	Behshahr Industrial Corporation (BIC)

The purpose of this research stage (refer to Appendix V for the interview template) was to gain more information about the MNCs, understand their HR policies and practices, and the internationalisation of HRM in other subsidiaries and JV partners. This phase used

two means of data collection; one through desk research on the MNCs and the other through in-depth semi-structured interviews with twelve respondents. The aim of the desk research was to identify information on the MNC, its internationalisation and expansion, age, size and countries it operates in. Table 7 below reflects this information.

**Table 7: Summary information on case study MNCs in IJVs in Iran**

	Nationality	Date of establishment	Operating in countries	Types of alliances	No of employees	No emp in Iran	Industry
Royal Dutch Shell	British-Dutch	1964	140	All forms	112,000	100	Oil and gas
BP/ Castrol	British	1901	100	All forms	100,000	80	Oil and gas
Total	French	1920	130	All forms	95,000	62	Oil and gas
Schneider Electric	French	1838	130	All forms	88,670	158	Electric circuits
Henkel	German	1964	125	Preferably majority	70,000	50-100	Detergents and chemicals
Cameron	British-US	1908	50	Mainly wos, if in JV will get majority	Around 20,000	100	Well heads for oil industry
Sasol	South African	1927	10-15*	All forms, has started expansion since 1999	30,000	1,000	Polymers and chemicals
Savola	Saudi Arabian	1979	5-6*	All forms	15,000	1,500	Edible oils, fast food chains

Source: Author's research from internet, brochures and interviews with respondents.

\* this number was provided by respondents, no other information was available on websites or brochures.

The aim of the semi-structured interviews in phase (b) was to examine HRM in the MNC, HRM in the IJV and the degree of transferability of HRM to the IJV. The interview included questions on the view towards HRM in the MNC, the application of HRM in subsidiaries (internationalisation strategy) and then finally HRM in the IJV; which partner controlled HRM, which HR policy and practice is MNC standardised and which is localised and what that entails. The HR policies covered the broad policy decisions in HRM; including strategy and planning. The HR practices included;

- recruitment and selection (how the process was structured, which partner provided job descriptions, who did the interviews, what training they received, who made final decisions),
- training and development (what courses were run, for what levels of staff, were these MNC standard or local providers),
- compensation (what were the compensation packages, including benefits and salary and performance bonuses, which partner designed the compensation package how were jobs graded, what benchmarks were used; Iranian or multinational standard) and
- appraisals (were they done, who were they structured by, how often were they done, what performance measures were used).

A Likert five-point scale was introduced to help understand how standardised or localised HR policies and practices were in the IJV, level 1 representing the most standardised to MNC HR policy and practice (P&P) and 5 the most localised.

1	2	3	4	5
Equivalent to MNC standard HR P&P	More similar to standard MNC	Standard policies but local realities	More similar to local HR P&P	Equivalent to local HR P&P

Level one was when the policy and practice was completely MNC standard. Level 2 was when the HR policy and practices were MNC standard, but some local content was also included. For example Castrol Iran's recruitment was two, because although all the interview techniques, competencies and questions came from the MNC, Castrol Iran adapted it to local realities by including some culturally correct questions in the selection and interview process. One example heard from the Castrol Iran HR Manager regarding their interviews in Iran was: *"For example, in the UK we never ask about someone's family, however in Iran we always ask about the family"*.

On the above scale, level three was when MNC policies and practices were taken into account but had been adapted very much to fit the Iranian environment. An example was with the performance appraisal process and practice in PASH, where the Shell performance appraisal (PA) form was used, which had all the Shell terminology and key performance indicators, but this is being applied locally, with no direction or training or input from Shell on how to use the PA forms.

In some cases, such as with SEI's recruitment and selection policy and practice, this has now become a level four. In the beginning it was more standardised but over time and due to the development of the HR department in the IJV, this process has become much more localised, in terms of interview questions, techniques and so forth. However initially all the relevant training was provided by the MNC.

A level five indicated that the policy and practice was completely localised with no involvement from the MNC. An example was with the Henkel-Pakvash IJV where all HR policies and practices were completely local and where the MNC had no input.

It is noteworthy that respondents completed this ranking themselves. They first gave the explanation of their HR policy and practice and then ranked the practice on the five-point Likert scale. The information on the application of HR policies and practices in each IJV is provided in Appendix VII.

HR managers and HR directors of the MNC were the main target group for this research stage. Twelve interviews were conducted. By order of preference, the MNC HR Manager was interviewed, if this person was not available, then the foreign expatriate Country Manager, or then the Iranian HR Manager appointed by the MNC to the IJV. In most cases the expatriate manager was first approached as it was necessary to obtain information on the MNC's HR policies and practices, HRM in other subsidiaries and HRM in the IJV in Iran.

Of the twelve interviews conducted in this research stage, eight were with expatriates from the MNC or the IJV General Manager and HR Manager positions; four interviews were with Iranian HR Managers and General Managers. Twelve interviews were necessary

because in some cases the initial interviewee did not have sufficient information either on the MNC's HRM policies or the IJV's HRM policies; in those situations interviews were conducted with both the MNC and IJV Managers. Table 8 lists the interviews.

**Table 8: Interviews held with respondents and their level of HR expertise in each IJV (Research stage two, phase (b))**

Name of IJV	Position of manager	Expatriate or Iranian	Comments
PASH	1. MNC HR and Finance Manager	Expatriate	IJV does not have an HR manager, the GM is also responsible for HR. The MNC was responsible for all IJV HRM issues, therefore this person was the best to give both the MNC and IJV perspective.
Castrol Iran	2. MNC Country Manager (also IJV Board Member) 3. MNC HR Manager	Expatriate Iranian	The MNC HR Manager directly supervises the IJV HR activities. The MNC country manager was very well informed of MNC HR activities.
Behtotal	4. IJV General Manager 5. MNC HR Manager	Expatriate Expatriate	IJV does not have an HR department or manager, needed to interview both people for an accurate perspective
Schneider Electric Industries	6. IJV General Manager 7. MNC/IJV HR Manager	Expatriate Iranian	The MNC/IJV HR manager was responsible for both companies HRM.
HenkelPakvash	8. IJV General Manager	Iranian	IJV does not have HR department or manager, this function was handled mainly by the IJV General Manager
SWEDEC	9. IJV General Manager	Expatriate	IJV does not have an HR manager, this is handled mainly by the IJV General Manager, there is an HR Assistant who helps him.
ASPC	10. IJV Deputy Managing Director 11. MNC HR Consultant	Expatriate Expatriate	
Savola Behshahr	12. IJV HR Manager	Iranian	Newly appointed HR manager. Could not get access to MNC General Manager and BIC (local partner would not give time to author).

Table 8 above shows why two interviews were required in many cases. It also shows that four of the IJVs did not have an HRM function, rather this is overseen and managed by the IJV General Manager. This is seen in PASH, Behtotal, HenkelPakvash and SWEDEC.

The interviews took one and a half to two hours to complete with each person. All the interviews were tape recorded and transcribed.

The final research stage was phase c (Appendix VI). This comprised final structured interviews looking at the degree of influence from the environments. The same managers from phase (a) and/ or phase (b) were approached but with specific questions to summarise and reaffirm their earlier comments in phases (a) and (b), but also asking about the degree of influence the different factors within the environments exerted on the transferability of HR policies and practices. This interview had two main objectives: to examine the degree of influence from the macro-, micro- and MNC environments on transferability of HRM in the general sense and to examine specific factors in each category and their degree of influence on transferability of HRM.

In this interview, the macro-, micro- and MNC environments had a three-point scale ranking, where one was most important and three was least important. Specific factors were ranked on a five-point Likert scale, where one represented the least influence and five the greatest influence on HR transferability. Managers tended to approach this question in general without linking the factors to the transferability of HRM. If they chose to first respond in general terms, the author encouraged them to do so but then turned the question to transferability of HRM and the degree of influence. The final interview was the most difficult as many of the interviewees were not HR managers and it was difficult for them to understand why the environment should influence transferability, even though they had gone through the different stages of research and understood how the research proposition was structured. It was necessary for the author to explain the research stages, verify statements and comments of the interviewees and then take them step by step through factors affecting transferability and their degree of influence. This stage took a further two hours' with each participant. It was necessary for this final interview to be conducted with the same people who had gone through phase (a). Nine interviews were conducted here. All interviews were tape recorded and transcribed. Table 9 lists the interviews. The final analysis of information from this research stage is provided in Appendix VIII.

**Table 9: List of interviews held in phase (c)**

Name of IJV	Position of manager	Expatriate or Iranian	Comments
PASH	MNC HR/ Finance Manager	Expatriate	Best person available because in post since beginning of IJV and knows Iranian situation
Castrol Iran	MNC HR Manager	Iranian	MNC Country Mgr was not available
Behtotal	IJV General Manager	Expatriate	
SEI	IJV General Manager IJV HR Manager	Expatriate Iranian	
HenkelPakvash	IJV General Manager	Iranian	Best person available because in post since beginning of IJV and knows Iranian situation
SWEDEC	IJV General Manager	Expatriate	Best person available because has been in post since beginning of IJV and knows Iranian situation
ASPC	IJV Deputy Managing Director	Expatriate	Best person available because has been in post since beginning of IJV and knows Iranian situation
Savola Behshahr	IJV HR Manager	Iranian	Only person accessible
<b>Total</b>	<b>9 managers</b>		

In two of the IJVs only one respondent was available throughout all the three interview phases. These were the IJV General Manager of Henkel Pakvash and the HR Manager of Savola Behshahr. It was questionable whether one interview would suffice for each IJV and whether that information could be reliable. Geringer and Hebert (1991:252-61) examined the same question of whether data collected from one parent company or the JV General Manager represented a reliable measure and concluded that: "A single respondent per IJV appears to allow researchers to obtain fairly reliable and efficient data". Following their opinion, the author believes that data using only one respondent per IJV may be considered reliable, if the respondent is one of the key people responsible for the IJV.

### **Data Analysis**

Once all the data had been collected from the three phases of research stage two, they were analysed using content analysis. The author read through the data and defined recording units and categories. This task was made simpler by having clear headings for the questions, which became the main categories. Data were recorded and broken down into words, themes and phrases, ensuring that the methodology was consistent in all cases. The frequency of the statements was recorded and documented in a table produced for the



purpose of data analysis. The author then made shorter tables cross tabulating different sets of information with one another to examine trends. For example, the MNC information was cross tabulated with HR policies and practices in the IJV to identify if the age or level of internationalisation of the MNC had any effect on HR transfer. To ensure there were no human errors in cross tabulations, the data was input into a statistical computer software program (Statistical Package for Social Sciences (SPSS)) and checked a second time. This information has not been included in the Appendices as the tables and SPSS would be too long, however, the results of the final analysis of research stage two, phase (c) has been included in Appendix VIII.

A number of hypotheses were proposed following the literature review as a basis for generating and testing theory providing from the literature and through the author's observations and assumptions. The author used the hypotheses to test the influence of the environments on the transferability of HR policies and practices.

### **3.7 Validity, Reliability and Controlling for Bias**

Research can only be useful if there are constant controls on the evaluation of the research outcomes. Evaluation focuses on measures to counteract any weaknesses inherent in the chosen research strategy (Then, 1996). The language of evaluation includes such terms as *reliability of the data*, *validity of the findings*, and *generalisability of the data*. Evaluation requires that all other factors that could distort the information are taken into consideration.

Reliability examines the extent to which a test or procedure produces similar results under constant conditions (Yin, 1994). The aim of reliability is to reduce the errors and biases in a study. Validity, on the other hand, determines how satisfactory the answer provided by research is (Then, 1996). A valid measure is one that measures what it is intended to measure (De Vaus, 1991). Validity is often termed internal or external (Yin,

1994, Gill and Johnson, 1991). Internal validity refers to whether or not what are identified as the "causes" actually produce what has been interpreted as the "effect" and checks whether the right cause and effect relationships have been established (Amaratunga et al., 2002). Internal validity concerns establishing theoretical territory that goes with the defined construct and ensures consistency between it and other recognized constructs (Amaratunga et al, 2002, p.29).

On the other hand, external validity, refers to the extent to which any research findings can be generalized beyond the immediate research sample or setting. Concerning the context of qualitative research, however, validity has a different perspective. Qualitative research identifies the presence or absence of a given feature in a problem or setting, as opposed to quantitative research which measures the degree of presence of the feature itself (Then, 1996).

The basic difference between reliability and internal validity is that reliability deals with the data collection process to ensure consistency of results and internal validity focuses more on the way such results support the conclusion (Then, 1996). In qualitative research, however, a number of researchers (Easterby-Smith, 1991; Miles and Huberman, 1994; Yin, 1994) developed additional techniques to describe the quality criteria. Yin (1994) identifies a number of tools to establish validity and reliability in qualitative research. These include establishing a chain of evidence, using a draft study report to be reviewed by key informants, use of a single research exploratory design, specification of the unit of analysis, developing a formal research study framework with an overview of the research project, field procedures, research questions and a guide for the research report.

The author continuously tried to ensure her research and approach was reliable and valid, by the following:

- 1) Research methodology and stages—several stages of data collection were undertaken. The first research stage was to set the picture and examine the macro-environment in Iran. Data were collected, content analysed and fed back into the second research stage of semi-structured interviews to be used in IJV companies.

The selection of managers in the first research stage was based on specific factors determined by the managers' level of experience and knowledge base; however, this selection was also left slightly open, so that a better cross section of information, views and opinions could be accessed.

2) Choosing the IJV companies—although one of the biggest challenges in conducting research in Iran was access to IJVs, the author used different means to gain access, mainly through convenience sampling. In choosing the IJV companies, it was important that a set of common criteria were met. Although, initially twelve IJVs were interviewed, from these only eight then formed the finally selected IJVs. These eight all had the prerequisites for the second stage of research.

3) Forms of data collection using qualitative research interviews—in order to control reliability and validity, semi-structured interviews were used in both research stages. The purpose of applying this methodology was to allow interviewees to share information they thought necessary for the question and respond in their own words, so as not to control the data. Only phase (c) of research stage two used a structured interview template. Additionally, data from the first research stage were used to design the second research stage.

4) Participants were also asked to produce any documented company data concerning the history of the IJV, its goals and financial statements. This was necessary to use as a second form of data verification especially pertaining to the history of the IJV. However, only a limited number of IJVs produced this written information, mainly in the form of brochures. Websites for the IJVs or partner companies, were also examined as company data.

5) Likert scales were introduced in the application of HR policies and practices in the IJVs (phase b) and the final analysis of the influence of the environments in

transferability (phase c). This provided additional support to the research findings from the in-depth interviews.

6) Interviewing techniques with IJV managers—all interviews, especially in the second research stage, were held with senior level managers involved in the IJV or the MNC. Interviews were conducted with expatriate and Iranian managers and it was necessary that the managers had been involved in the management or establishment of the IJV. Most managers were Country, General or Managing Directors and HR Managers. The author tried to target certain managers for certain interviews. For example, in research stage two, in phase (a) it was necessary to have the interview with the Country Manager and HR Manager. In phase (b), it was required to have the interview with the HR Manager involved in the IJV or the MNC. It was necessary for this person to have a solid understanding and knowledge of MNC HR policies and practices. In the cases where an Iranian was appointed as the MNC HR Manager or IJV HR Manager, the author tried to interview the MNC General Manager to ensure validity and reliability. Because HRM is a new concept in Iran, the present Iranian HR Managers are all being trained and developed and at this point in time do not have the same knowledge as their MNC counterparts. In phase (c), it was necessary to once again have one of the people who were interviewed in phase (a) or (b) to respond to this final interview. This was acknowledged in all eight IJVs. The same questions were used in all interviews. Questions that received limited answers were repeated with examples and sometimes with a probing approach, such as, for the question: *In your opinion what factors in the macro environment mostly affect your IJV?* This would be further probed: *For example, how do you see the economic environment in Iran affecting your IJV? Does it have any effect?* This was to ensure all questions had the same depth and detail required for the analysis. For example, the HRM questions were difficult for many non-HR Managers. In cases where the HR Manager could not be

interviewed, HR issues had to be discussed in more detail with the General or Financial Managers to ensure they clearly understood the question.

7) Appropriateness of Interviewees—the final interview in research stage two required interviewees to link the transferability of HRM practices to the degree of influence of environmental factors. This was a very delicate stage of research, as most interviewees were tired by this point, many were not HR Managers by profession so had a limited knowledge of HR, and some found it difficult to understand the influence of the environment. However, the author took each interviewee through the same process of explaining the model of transferability, the environment and the different variables that could influence the IJV, which had been examined through the three phases of research stage two. Such explanations helped the interviewees understand the questions, but they sometimes struggled to verbalise their responses and clarify the degree of influence. The author noted differences in managers' capabilities; some managers were very excited by the final interview. They saw the logical flow and build-up of information in the different phases of research, which brought all their data together in one final analysis, but other managers felt puzzled by the multitude of factors. The author attributed this difference to the level of internationalisation of each particular manager, their intellect and ability to conceptualise information. It could also be related to the profession of the interviewee. Some General Managers who handled HR affairs, grasped the final interview quickly; others, who came from a strictly sales or engineering background, seemed to have more difficulty, and conversely, some HR Managers did not have a broad enough scope of internationalisation to understand the influence of the environments. In cases where the author could interview one other person to obtain a second view, this was done, but in several cases, this was not possible and the author tried to simplify the questions as much as possible.

8) Data analysis techniques—data analysis was a crucial stage in ensuring reliability and validity. In content analysis there are three types of reliability: stability, reproducibility and accuracy (Krippendorff, 1980: 130-154). General headings and categories from the data in the preliminary research were used and developed into the interview template for the IJV interview (research stage two). Categories were divided into broad headings and then sub-headings, phrases and words were recorded for frequency of occurrence. Conclusions were then drawn from the headings and sub-headings and the decision was taken as to which factors would have a direct impact in identifying concepts and theoretical bases. Hypotheses also ensured conclusions were more clear.

9) Overcoming cultural and language biases—in order to minimise language barriers, interviews with foreign managers were conducted in English and those with Iranian managers were conducted in Farsi or English, depending on the choice of the interviewee. As the author is bilingual, it was possible to reduce language problems in data collection and interviewing. However, in many cases, English was not the first language for several of the foreign managers. One example was where the French manager was asked to repeat his answer to the question: *“What is the most important factor a multinational company needs to consider when doing business in Iran?”* The response heard by the author from the French manager was: *passion*, when the French manager had actually meant: *patience*.

In terms of cultural bias, it would be idealistic to say there was no cultural bias experienced in the interviews. Each person, foreign and Iranian and, the author as well, came with their own cultural baggage. It was important to establish the reason and objectives for the research and to ensure the questions were asked with the same tone and in the same context. It was important to ensure a feeling of respect for each of the managers for their views and opinions, even if some of the comments were negative towards Iran and Iranians. As over 20 interviews had been conducted,

prior to commencing the interviews for the IJVs, the cultural bias in the questions had been reduced considerably and a neutral approach in interviewing and data gathering had been adopted.

As for cultural bias on the part of the interviewees, the author's role was important in ensuring this was reduced. This was done through the following means: ensuring their viewpoints were treated with respect and in confidence, sharing the stages of research with the managers in advance and sending the transcribed notes to the participants following their interview. This information and guarantee before the interview, enabled managers to respond more comfortably to the research questions. Furthermore, to thank the interviewees and IJVs in the final research stage, the author promised a briefing on the final analysis of findings to be shared with all the interviewees. This was welcomed by all interviewees.

### ***3.8 Access, Trust and Acceptability of the Research Methodology***

The various constraints on this research included access to the IJV managers, establishing trust and acceptability and the practicality of the chosen research methodology. With regards to the issue of trust, the author had assumed that Iranian companies would be more suspicious and restrained in providing information. However, it was actually the eastern companies that expressed a much greater level of distrust and non-cooperation than any of the western and Iranian managers. Although a number of eastern-Iranian IJVs were approached, each had a high level of distrust and suspicion. Eastern suspicions and the level of discomfort with eastern-Iranian IJVs were much more noticeable than with the western-Iranian ones and were a constant threat to the scope of research. This caused the author to spend much more time and effort on re-negotiating and explaining the issues of research and confidentiality to the companies interviewed and yet more time still on

establishing working and research relationships with the IJVs used in this study. One of the IJV cases had to be omitted after six months of relationship building, owing to the level of distrust the Iranian and Japanese side both showed. The author had to present two different letters to the Iranian management team confirming that she was a university student and was doing research in the mentioned field. The interview, which lasted two hours, was constantly interrupted by other staff. After being granted an interview, when the author asked for an appointment to meet the Japanese management, the Iranian management team refused, saying the information in the interview was too confidential to discuss with the Japanese partners.

The issue of access was most important in selecting the IJVs. The author assumed that gaining access to the foreign partners would be more straightforward, however access was clearly a cultural issue. It was easier to gain access to many of the western-Iranian IJVs, where even the Iranian partners were more relaxed and transparent and were generally supportive of the research. However, with regards to the eastern-Iranian JVs, access to both the Iranian and eastern partner was extremely difficult and in two cases the interview could not be presented in the final research findings. Consistent access also proved difficult in the different phases when the author needed access to the IJV and different managers within it throughout phases (a) to (c). This was one of the reasons why interviews conducted with IJVs identified in 2002 had to be repeated with new managers in 2004/5. The author had also to ensure that these managers would remain in Iran during research stage two.

Participant observation had been intended for use in the research methodology. However, this met with great reluctance by the Iranian and eastern partners. The notion of being present in a company as an outside observer was quite a new concept to many Iranian and eastern managers. The western managers were fairly comfortable with the idea, as long as the scope of observation was transparent and communicated beforehand to other staff and colleagues. The western managers were also most considerate of their Iranian partners, and stressed to the author that she would be able to be a participant observer



"only with the prior approval of the Iranian partner". However, in the end, and owing to the sensitivity towards participant observation, the author decided to use only the interview methodology, which was much better received by the IJV partners.

### **3.9 *Overcoming the obstacles***

To begin with, the research study was to have been a comparison of eastern and western HR policies and practices in IJVs in Iran. However, the author soon found that gaining access to eastern IJVs would require a great amount of time and energy. The research study was altered to keep to a select number of IJVs who constituted main trading partners in Iran, had a majority of IJV foreign partners in Iran and, more importantly, provided access. Four IJVs initially started working with the author but later did not find the time to continue with the research. The author therefore needed to go back to contacting and identifying new IJVs with the right criteria that would be accessible throughout research stage two.

Identification of the IJVs proved to be one of the most challenging aspects of this research.

The next obstacle was the negative view towards research which was inherent in many companies, mainly Iranian. To overcome these obstacles the author did the following:

- 1) Shared as much information as possible with the managers. This was done in form of sending a letter and interview questions to the managers before the interview, informing them of the type of questions to be asked. The transcribed document was sent to managers for comment. Most managers did not have time to comment, however one or two did with great passion. Emails and letters were sent to managers informing them of the progress of the study and research with a final promise when analysis was complete to invite the managers to a briefing on the research. They each enthusiastically acknowledged the invitation.
- 2) Although participant observation was not permitted, the author was nonetheless an observer in an external environment and took notes of the environment. These notes

covered the physical environment, the personal relationships between managers and staff and the management style of the interviewee. These were all documented as part of the interview in the author's notes. These comments were not sent to any of the interviewees for comment.

- 3) One final point was the assurance given to each interviewee that this information would remain confidential to the interview and would only be used in the context of this research and for no other purpose. In some instances managers demanded this assurance in advance, in other instances, and if not mentioned by the manager, this assurance was provided by the author.

### **3.10 Conclusion**

In conclusion, this research methodology has proved effective for this study. Qualitative research best suited this topic and has provided valuable, in-depth data which would not have been obtained by using quantitative data methodology. One further advantage of using the qualitative research methodology was the flexibility to swiftly respond to changes in research design. When sufficient eastern IJVs were not identified, the focus of the research could be altered and when participant observation was dismissed, a different means was used to gather the data.

Semi-structured interviews not only provided the detail needed for this research proposition, but also provided the right environment for managers to be comfortable with research questions. When the research setting was right and the managers had set time aside for this interview and had the interview template in advance, they enjoyed the discussion and the opportunity to discuss their IJVs. In an ideal research setting, the author would have preferred to have spent more time examining situations in the IJV premises and to have seen them in action. A larger sample size would also have been preferred, but the

researcher needed to keep a realistic time-frame in mind for the participants, data gathering and completing the study under question. This field, as yet only partially investigated, will undoubtedly yield more possibilities for future research.

## **CHAPTER 4: THE IRANIAN CONTEXT**

## **4.0 Introduction**

One of the largest countries in the Middle East, Iran has many faces and facets. This chapter provides background to the country, in order to illuminate the different cultural, organisational and institutional frameworks that affect management, business and HRM. It begins with a brief account of Iranian history, its demography and then addresses socio-economic, political, national culture and other factors that influence business. Particular emphasis is paid to the management style of organisations in Iran, their business practices and process of internationalisation. Finally the development of HRM and personnel management in Iran is further examined, including culture specific HRM policies and practices as implemented in Iranian organisations.

Research findings from stage one (phases a and b) are reported in this chapter to provide insight into the role of the environment for setting up IJVs, the problems and challenges of attracting foreign investment, the differing management styles in Iranian organisations, the business culture, and the perception of HRM. Quotes from interviewees are used to highlight points.

### **4.1 The Iranian Situation**

With a population of 70.5 million (Iran Statistical Centre, based on October 2006 consensus), Iran is one of the largest countries in the Middle East, with a highly educated workforce and an abundance of natural resources, including oil, gas and minerals. Iran is home to about one percent of the world population but has a much larger share of the world's natural resources.

Iran is strategically one of the most important regions of the world—partly because of its reserves in natural resources such as crude oil, and partly because of its position in Eurasia with politically significant borders: the Persian Gulf and the Sea of Oman to the south, Turkey and Iraq to the west, Afghanistan and Pakistan to the east and the newly independent ex-Soviet republics of Armenia, Azerbaijan and Turkmenistan to the north. Furthermore, Iran is the link between the newly developed Caspian basin and the warm waters of the Persian Gulf, two of the main hubs of oil and gas development in the world.

As Sciolino (2000: 339) observes, “Iran has been blessed and cursed with a strong national identity, bountiful natural resources, a strategic location and an ancient intellectual and cultural tradition”. However, the upheavals of the past 25 years—the Islamic Revolution in 1978/79, the Iraqi invasion of Iran and the consequent war (1980-88), US antagonism and sanctions imposed on Iran, as well as an ideological shift—have all had a serious impact on the country’s socio-economic realities.

The nationalisation of industries, the politicisation of trade and economic decisions, the reshuffling of government employees, the changing parameters for women’s employment, the emphasis on loyalty and ideology as opposed to technocracy and expertise, are all facets of the socio-political and socio-economic shifts that emerged as revolutionary events and emotions unfolded. The resulting gap in expert management capabilities has led to major shortcomings in the country’s business practices. Khajehpour (2000) comments that mismanagement and corruption have caused damage to the economy and business mentality in Iran.

Although these are hindering influences, Iran retains its importance in the Middle East. The growing number of IJVs and foreign company entrants reinforce the fact that Iran is gradually becoming a country in which to invest. As one of the interviewed expatriate managers commented:

*Iran is a country you cannot afford to neglect, with its geopolitical location, very rich resources and educated and qualified human resources, it is a difficult country to be in, but if a company wants to be global and wants to expand into the Middle East, Iran is a country which can not be missed.*

## **Demography**

Seventy percent of Iran's population are under the age of 30. Only half the population are Persians (51 percent); nearly a quarter are Turks (24 percent) from the northern province of Azerbaijan; 8 percent are Gilani and Mazandarani from the Caspian Sea area; 7 percent are Kurds; and the remainder comprise Arabs (3 percent) from the south, Lurs (2 percent), Baluchis (2 percent) and Turkmens (2 percent). Only 58 percent are native Persian speakers, the remaining 42 percent speak different dialects but consider themselves Iranian first and their ethnic affiliation second. Over 60 percent live in urban areas and the remainder in rural areas.

Latest statistics show that the literate population stands at over 84 percent.

Approximately 79 percent of the employed population (17 million) are educated and hold high school diplomas and higher degrees. Estimates indicate that in the next decade Iran will produce an average of between 200,000 and 250,000 university graduates every year (Namazie, 2003).

## **History**

One of the main misperceptions of Iran, widely known as Persia until 1935, is that it is an Arab country. Though situated in the Middle East, Iran, a country with over 6000 years of civilisation, is not of Arab origin. Iran derives its name from the word *Aryan*. The first settlers in Iran, or Persia, were Indo-European nomads who migrated from Central Asia in the east in the second millennium BC. Iran was one of the countries on the famous Silk Road which provided trade access from the west to the east and vice versa. The Aryan tribes and nomads faced harsh conditions as the land was dry with few rivers, variable seasons and large salt deserts. The Persian language (Farsi) belongs to the Indo-European family of languages.

Iran has created a great civilisation but has also has been invaded and conquered. Much land has been lost in battles and through invasions—a sore point that still dwells in the

memory of the proud and nationalistic Iranian. History and geography have taught Iranians that nothing is sustainable and constant.

For the past century, Iran has discussed and debated democracy and pluralism and has seen many changes to its social, political and economic make-up. Since 1906 Iranians have experienced two revolutions (1906 and 1979), the most recent of which replaced the longstanding monarchy with an Islamic Republic. Soon after the Islamic Revolution, Iraq invaded Iran in a war that lasted for eight years (1980-88). The decade of the 1990s saw a reconstruction plan for Iran, to re-build and stabilise the country's economic, political and social structures. The Revolution had profound implications on Iran's economy and on society as a whole. It modified the political, social, economic and cultural spheres affecting private lives and social relationships. Almost immediately after the Revolution, banks and insurance companies were nationalised, many foreign companies closed, assets of major Iranian industrialists confiscated. Many industrialists fled the country. All organisations, private and public, social places and spheres were required to conform to Islamic laws and codes of conduct.

The picture today is changing. Although the western world still considers Iran a fundamentalist Islamic state, Islam is being re-interpreted to fit with the modern day demands and realities of this nation.

## **Politics**

Politics plays a key role in every aspect of life, shaping the development and future direction of Iran. The power structure is very much interrelated with the country's clergy. There are two important and parallel sources of legitimacy—sometimes intermingled and sometimes kept separate. The first is affiliation with the traditional clerical structures in Shi'ite Islam. Essentially, the 1979 Revolution has institutionalised the already existing power base of the clergy and has given the highest position of power (Supreme Leader) to a cleric who in turn is elected by a clerical body (Assembly of Experts). However, in parallel, there are a



number of democratically elected institutions (Parliament, presidency, local councils), which create a more democratic balance to the Islamic power structures.

There are a number of political parties in Iran ranging from traditional left to the extreme right. Basically the rightists believe in conserving Islamic and traditional values, whereas the leftists tend to see socio-political reform as a recipe to respond to the present challenges under an Islamic republic. Decision-making patterns rely heavily on a continuous consensus-building exercise between these factions and between the clerical as well as elected institutions in the country. The consensus-building measures slow the pace of decision-making which may explain why Iranians have a different sense of time and are slower to adopt new approaches.

### **Economy**

According to a resource-based analysis of economic performance, Iran has the potential to be the world's 20<sup>th</sup> strongest economy. Its rich natural and human resources and geo-strategic position make it a unique economy. Iran has about 7 percent of the world's natural resources including some 10 percent of the global proven oil reserves and some 16 percent of the world's natural gas resources. Notwithstanding, a look at Iran's economic performance underlines the fact that this economy has not realized its potential. With a GDP of about US \$200 billion, Iran's economy currently ranks 33rd in the world, but a resource-based analysis would put Iran's potential at rank between 15 and 20 with a potential GDP size of some US \$500 billion. In fact some UN documents that use Purchasing Power Parity calculations put Iran's potential GDP at slightly above the mentioned level of US \$500 billion. However, it is an economy that has gone through decades of excesses caused by revolution, war and reconstruction (Khajehpour, 2001). Table 10 below shows recent macro-economic data.

**Table 10: Macroeconomic Data (21 March 2006 – 20 March 2007)**

<b>Area:</b>	1.65 sq km
<b>Population:</b>	70.6 million
<b>Capital city:</b>	Tehran (pop 12 million)
<b>People:</b>	Persian (Fars) (50 percent), Azari (25 percent), Kurdish (5 percent), Baluch (4 percent), Arab (4 percent), Lor (2 percent), Turkmen (2 percent), Armenian, Jewish, various ethnic groups
<b>Languages:</b>	Persian (official language), Ethnic languages: Azeri, Kurdish, Baluchi, Arabic ...
<b>Religion:</b>	Shi'ite Muslim (89 percent), Sunni Muslim (10 percent), Zoroastrian, Jewish, Christian, Baha'i (1 percent)
<b>Government:</b>	Islamic Republic
<b>Supreme leader:</b>	Ayatollah Seyed Ali Khamenei
<b>President:</b>	Mahmood Ahmadinejad
<b>GDP:</b>	US\$217 billion (2006 projection by the Central Bank of Iran)
<b>GDP based on PPP:</b>	US\$520 billion (2006 estimate)
<b>Per capita income:</b>	US\$3,074 (2006 estimate)
<b>Per capita income based on PPP:</b>	US\$ 7,365
<b>Inflation:</b>	15 percent (2006 estimate)
<b>Unemployment:</b>	11 per cent (2006 estimate)
<b>Major Industries:</b>	Oil and gas, petrochemicals, agriculture, service sector,
<b>Major Trading Partners:</b>	Germany, Italy, Japan, UK, France, China, UAE

Source: Central Bank of Iran 2006 figures

Despite recent reforms, Iran's economy is still based on a protectionist model. Following the Islamic Revolution, many large industries were nationalised and still remain in government ownership today. It is estimated that the public sector controls some 80 percent of the country's economy directly (through ownership) or indirectly (through state-affiliated institutions such as foundations). This leaves a 20 percent share of the economy divided between two sectors: The private sector (estimated share of 17 percent) and the cooperatives sector (3 percent). The private sector is mainly present in agriculture, domestic and foreign trade, small industries and small mining activity, while its role in large-scale economic activity is negligible.

The government has identified state domination in the economy as one of the key impediments to economic growth in Iran. In the past few years, the government's emphasis has been on privatisation, breaking of government monopolies and giving more freedom to the private sector. By allowing private banks and insurance companies to operate, the government has also set the tone for a more liberal approach to financial markets.

Furthermore, industries such as downstream oil and gas, telecom and tobacco have been

deregulated, although the government's shadow remains very heavy on the upstream oil and gas sector. However, even this strategic sector is a target for restructuring in the upcoming Five-year Plan (2005-2010).

Despite some reforms, challenges remain and unemployment tops the list. The main cause of unemployment is the country's youthful population, which gives rise to some 800,000 new entrants into the job market each year. At the same time, despite the unemployment rate (officially 11.3 percent, unofficially 20 percent), Iran also suffers from underemployment. An output of more than 200,000 university graduates per annum is a phenomenon that the Iranian economy cannot absorb, with disturbing social outcomes such as brain drain and underemployment (Khajehpour, 2006).

### **Legal Issues**

Although Iran has a comprehensive legal regime, established almost half a century ago, some of the laws are not representative of the present-day challenges and do not provide security to investors. The labour law, for example, was re-written in 1985 during the Iran-Iraq war and at a time when it was important to give workers more confidence in the stability of their jobs. The law remains very pro-employee and makes companies very hesitant to employ people on permanent contracts, preferring temporary ones. Furthermore, the instability in laws and regulations, as well as in the country's overall policies has been a discouragement to serious private sector activity. Khajehpour (2001) comments that the most significant obstacles to private sector investment in Iran are unsustainable policy - making, lack of stability in regulations, foreign exchange regulations, labour law regulations, financing problems and corruption.

### **Religion**

Over 98 percent of the population of Iran is Muslim, comprising 89 percent Shi'ites and 9 percent Sunnis; the remaining 2 percent comprises religious minorities such as Jews, Christians and Zoroastrians. As Bani Asadi (1984) points out, Iranian culture has been

influenced by three different cultures which have co-existed for centuries: Ancient Persian culture, which has been in existence for over 6000 years; the Islamic culture for 1400 years and the western culture, which has a history of over 200 years in Iran. These have all influenced the make-up of the national culture. Tayeb (2000) lists the values of Islam as individual responsibility within a framework of cooperation with others, fatalism, but also a recognition of personal choice, work ethic, patience, self-discipline and abstinence, resolve, sincerity, truthfulness and trust. Interestingly, Iran follows many traditional customs that originated in its pre-Islamic history. Consequently, the degree of religiosity in Iran is less compared to other Islamic countries.

The factors influencing the Iranian cultural make-up include: Islamic values; nationalist sentiments, such as pride; uncertainty as a result of history and geography; and distrust as a result of fast-changing political and economic realities. The combination of these factors encourages the emergence of individualistic characteristics, with limited scope for team spirit, that give rise to an autocratic decision-making and management style (Javidan and Dastmalchian, 2003).

Islam as a religion and as a management philosophy or ideology is only partly noticeable in Iran. The public sector shows Islamic values in its simplicity and modesty of dress. However, this is not the same in private business spheres and definitely not the same in private social life, where Iranians tend to prefer sophistication and modern elements. Furthermore, traits such as caring for the underprivileged, paternalism and being charitable are encountered in both the private and public sector. In the author's opinion this may also be a national culture characteristic and not necessarily due to religious beliefs.

### **National Culture**

One of the final macro-environmental factors to consider in understanding the Iranian socio-economic framework is its national culture. This influences management styles, shapes what meaning work has for people and their values. Cultural norms are evident in the attitudes and behaviour of the workforce, the assumptions that shape managers'

perceptions and insights and are thus important to any understanding of HRM in the country. As outlined in Chapter 2, Hofstede (1980) identified key national cultural dimensions as power distance, uncertainty avoidance, individualism versus collectivism, femininity versus masculinity and time orientation. Table 11 shows Iran's scores for these dimensions in relation to some other countries.

**Table 11: Iran's national culture position in Hofstede's study**

Dimensions	Extreme countries and Iran's position
1. Power Distance	<ul style="list-style-type: none"> <li>• Highest power distance: Arab (Muslim world) (80), Mexico (81), Panama (95),</li> <li>• Lowest power distance: Denmark (18), Israel (13),</li> <li>• Iran's score: 58 medium (slightly below average)</li> </ul>
2. Uncertainty Avoidance	<ul style="list-style-type: none"> <li>• Highest U.A.: Japan (92), Spain (86),</li> <li>• Lowest U.A.: Denmark (23), Sweden (29),</li> <li>• Iran's position: 59, medium (slightly below average)</li> </ul>
3. Individualism / Collectivism	<ul style="list-style-type: none"> <li>• Most individual country: US (91), UK (89)</li> <li>• Most collectivist country: Panama (11), Indonesia (14),</li> <li>• Iran's position: 41, medium (more collectivist)</li> </ul>
4. Masculinity / Femininity	<ul style="list-style-type: none"> <li>• Most masculine country: Japan (95),</li> <li>• Most feminine country: Sweden (5),</li> <li>• Iran's position: 43, (somewhat feminine)</li> </ul>

Source: Adapted from Hofstede (1991) and cited in Kiani and Latifi (1997)

- 1) The high power distance (PDI) is indicative of a high level of inequality of power and wealth within the society. This condition is not necessarily resented by the population, but rather accepted by the society as its cultural heritage. A high score on the power distance dimension relates to inequalities in society and implies a distance between subordinates and superiors. Subordinates respect their superiors and superiors do not seek participation. Iran's middle position on the power distance dimension, a score lower than that of other Muslim countries, sets up an ambiguous relationship between subordinates and superiors, one that is subject to frequent testing.
- 2) Iran's score is slightly below average on the uncertainty avoidance dimension, implying that Iranians handle risky and ambiguous situations fairly well and do not feel very threatened by them. Iranians tend to prefer continuity and stability but at the same time can exhibit innovation and creativity.

- 3) Iran scores as a more a collectivist country, implying that Iranians value the welfare of the group before their personal well-being; they value harmony and equality more than personal achievement and work better with others than alone. As an example, in a collectivist society, members of a group will often provide financial support to other group members; in an individualist society, money stays more typically with individuals rather being than shared.
- 4) Iran is seen as a comparatively feminine country, caring more about maintaining relationships with colleagues and friends, encouraging a more nurturing and caring atmosphere in the work force. A more masculine society shows a preference for achievement, competition and material success. In such a relationship-based society, who you know is sometimes more important than what you can do.
- 5) Hofstede and Bond (1988) added a fifth dimension after an additional international study with a survey instrument developed with Chinese employees and managers. Based on Confucian dynamism, long-term orientation (LTO) was applied to 23 countries. Although Hofstede did not measure Iran on this dimension, most of the interviewees note Iran's lack of long-term orientation. One Iranian manager made a comment on this point:

*In Iran managers just manage on a day-to-day basis, they do not plan on a long term basis, in Iran we manage crises which are out of our control and dictated by the changing laws.*

Although the author has not statistically tested the dimensions in post-revolutionary Iran, she believes that Iran's ranking has probably changed over the past two decades. Factors such as revolution, war, economic, political and social instability are likely to have brought about changed attitudes from those first recorded by Hofstede in 1972.

Attitudes to power distance are an example in which a shift towards a higher score is likely. Iranian managers tend to be paternalistic, although staff may not share this approach unless there is an informal bond between staff members (Mortazavi and Karimi, 1990; Mortazavi and Salehi, 1992). However, the manager more easily assumes this relationship

and role. This also relates to Hofstede's view of Iran as a collectivist country, where, as he comments that the employer-employee relationship in collectivist societies is perceived in moral terms, like a family link. He argues that countries with high power distance support the paternalistic pattern of behaviour. Managers are seen as making decisions autocratically and paternalistically (Tayeb, 2001). Based on Latifi's (1997) research on Iranian managers, she concludes that managers were frequently performing the duties of a mentor, coach, teacher or an advisor (typical of a moderate to high power distance society).

Based on the GLOBE (Global Leadership and Organisational Behaviour) (House, et al. 2004), study which examined 300 middle and senior managers from Iran, out of a sample of over 17,000 middle managers from 850 organisations in 61 different countries, Iran was found to fall in the South-Asian country cluster along with India, Indonesia, the Philippines, Malaysia and Thailand, and not in the Arab country cluster. Another example of a country that has cultural similarities out of its geographical location is the UK which is located in Europe but not part of the European cultural cluster but of the Anglo cluster consisting of England, Canada, USA, New Zealand and Australia. Some ethnic parts of the South African culture would also fall within the Anglo or European cluster (white Afrikaans).

The GLOBE study measures the role of the individual in two dimensions: In-group collectivism and Institutional collectivism, which are different from Hofstede's value dimension on individualism-collectivism. In-group collectivism reflects the extent to which individuals are attached to their families and circle of friends, whereas institutional collectivism measures the extent to which members of societies respect broader societal interests versus individual interests. This study on Iran reflects the views of 300 middle- to high-level managers from over 60 organisations of an average size of 7,000 employees. These data reflect Persian culture, which includes the majority of the population and does not take other ethnic groups into account. Consequences of strong family orientation can be characterised as:

- 1) the use of indirect and non-explicit language,
- 2) personal relationships pre-eminent in decision making,

3) the reduction in the radius of trust.

It is important to realise the complexity of the situation, involving company practice and relationships between subordinates and superiors to make a calculated assessment of Hofstede's dimensions. The effects of two decades of hardship and change may have altered Iran's initial 1970s' score of Hofstede's dimensions. An interview with a Japanese colleague revealed his opinion of Iranians:

*Iranians are more passionate, sympathetic and emotional people, especially the men. Iranians show deeper feelings than the Japanese people. Iranians are individualistic and not collectivist. They also regard each other with suspicion and trust only their immediate families.*

The most recent and up-to-date research on Iran's national culture based on Hofstede's dimensions was conducted in 1997 as a working paper by Latifi and Kiani. Latifi and Kiani, quoting Bani Asadi (1984), state that Iranian culture is comprised of three facets: Ancient, Islamic and Western, with historical roots of 6000 years, 1400 years and 200 years respectively. Based on this multi-faceted culture, they find a somewhat different perspective to Hofstede's. Their findings are summarised the differences in Table 12 below:

**Table 12: Comparison of other cultural influences with Hofstede's dimensions**

Dimensions	Individualism/Collectivism	Power Distance	Uncertainty Avoidance	Masculinity/Femininity	Long Term Orientation
Hofstede's study	Medium (more individualist)	Medium	Medium	Somewhat feminine	Not tested on Iran
Ancient Culture	Collectivist	High	Weak	Masculine	Short-term
Islamic Culture	Individualist & Collectivist	Low	Weak and Time awareness	Feminine	Long-term
Western Culture	Individualist	Low	Strong	Masculine	Short-term

Source: Adapted from Latifi and Kiani 1997

These findings derive only from a working paper that claims to be concluded from a theoretical study based solely on a literature review including texts on history and the Koran (Islamic Holy Book). Latifi's and Kiani's (1997) results are concluded from a theoretical study which carries absolute and expected values, whereas Hofstede's results are extracted from an experiment and comparative research, which therefore bears relative values. Tayeb



(2001) also makes the point that national cultural dimensions may be interpreted differently in different situations. Researchers, including the author, are not always convinced by Hofstede's value dimensions for Iran, especially as there have been many factors in the macro-environment that have changed the country. It would be a good time for one of the interested researchers to revalidate Hofstede's dimensions for Iran to serve as an example for other countries that have undergone similar socio-economic changes.

## **4.2 Management and HRM in Iran**

There is not a great deal of academic work on Iranian management, however the author has used both a literature review and interview findings from research stage 1 phase (b) to elucidate this section. The quotations are all based on the ten semi-structured interviews (stage 1 phase b) conducted by the author with Iranian business people from both the public and private sectors; Iranian university professors of business and management; and several expatriates in Iran (Japanese and German heads of chambers of commerce).

Internal factors influence a nation and provide its competitive stance in the global picture. The internal factors relevant to Iran, as Kanungo and Jaeger (1990) point out, affect more managerial competence, the technological environment and HRM. In response to the unpredictable nature of the environment in developing countries, organisations adopt coping strategies such as lack of long-term planning, lack of a long-term vision and goal, lack of time management, moderate risk taking and lack of trust in the system with a concomitant lack of trust in people and staff: both managers and workers. This is evident in Iran. In one of the interviews a reputable private-sector Iranian businessman stated:

*In Iran the management style is not management, it is crisis management. We deal daily with changing laws and regulations, import and export regulations changing frequently, crises taking place regularly, both with staff and with the external environment.*

Another private-sector Iranian IJV manager stated:

*It is difficult to plan for the long term. Every time we have tried to, we have been unsuccessful and have had a surprise fall upon us.*

### **Management and Business in Iran**

As mentioned earlier, Iran has undergone two decades of radical change. One of the main factors which led to the reduction of private-sector activity was discontinuity in legal and political structures. Clearly throughout the 1980-88 Iran-Iraq war, the government's key priority was the war effort. Therefore, war economics and priorities dictated more rigid state controls over economic activity. Furthermore, due to revolutionary conditions, the concept of management evolved around the notion of loyalty being more important than expertise<sup>8</sup>. The consequence of this combination of factors was the emergence of an economic structure that revolved around a fully politicised and over-dominant public sector and a weakening private sector (Khajehpour, 2006).

Prior to the Islamic Revolution, Iran had a strong private sector and management was based on skills and expertise. Iran had some of the finest universities and educational establishments. Nepotism did exist in pre-revolutionary Iran and was quite strong in some cases, however skills and technocracy were also valued. The Islamic Revolution brought about changes not only in management but also to the composition of the workforce. Under the new Islamic code and the new social atmosphere, the role of women in the workforce was suddenly reduced. The dress code, working relationships between men and women, the authority of women in high ranking positions and gender segregation were reasons for women in the workforce to be dismissed, forced out of office or into early retirement, leaving a gender and professional gap in Iranian management structure.

Furthermore, at that time many leaders of Iranian industry fled the country, leaving a sudden gap in management expertise of both state-owned and private enterprises. The result of losing women and the sudden disappearance of a skilled and professional

workforce was the need to immediately find new staff to manage enterprises, re-establish the status quo and at the same time be consistent with the newly emerging Islamic values. Skills, years of experience and expertise were replaced by selection based on political ideologies, loyalty and the level of trustworthiness. Tibi (1983) argued that the Iranian revolution initiated a self-critical effort tending towards a return to the indigenous culture through a process of collective recollection. Ali and Amirshahi (2002) add that the Iranian Islamic Revolution deliberately initiated programmes to radically reshape beliefs, orientations and social structures to be consistent with the leading clergy and Islam.

Although these steps were necessary immediately after the Revolution and increasingly during the war effort, in present-day Iran, the imperatives have changed. The country needs to create 800,000 jobs annually and private and foreign investment must be encouraged. The country has now embarked on an effort to draft a National Industrial Strategy Document. The first findings of this document (prepared by the Management and Planning Organisation) indicate that Iranian industrial development needs to pay greater attention to software and management issues as opposed to the hardware approach of the past. This distinction could also be translated into HRM attitudes. As long as a country's focus is on hardware capabilities, HR development would not be seen as an appropriate asset. However, greater attention to "software and management" will require continuous HR development (Namazie and Tayeb, 2003). A shift in business thinking was found in a qualitative sample of 40 Iranian managers (Yasin et al. 2002), which shows that although religious-based values were still dominant in these managers, global business realities and values were forcing Iranian executives to reconsider some of their religious-based values. The research appears to show that Iranian business culture is adopting market-based values as opposed to religious based ones.

### **Effects on the Iranian style of management**

Bani Asadi (1984) was quoted earlier, stating that Iran's national culture has three sub-components: Traditional or Ancient, Islamic and Western. All of these have had an effect on

the style of management in Iran. The different styles of management can be seen in various organisations. The traditional style of management is very strong among the trade merchants (*bazaaris*) who had and still have a great amount of power and control. The *bazaaris* also follow Islamic culture and a combined style of traditional and Islamic culture can be observed in their management style. The traditional style of management is a very culture-specific style of management, based more on family relationships, hierarchies and nepotism, in which relationships and networks are given a great deal of importance. The Islamic style of management adheres to Islamic values of equality, justice and protection and support for subordinates and workers. It is common to see paternalistic behaviours in this style of management. As Yasin et al. (2002) point out, Iranian culture is deeply rooted in traditions, strongly emphasising the role of family and religion as two main culture-building institutions. The Islamic revolution created a social environment that uniquely blended national pride and Islamic values, forcing Iranian executives to realign their values and business practices to be consistent with religious, social and political values of the post-revolutionary culture.

Throughout the nineteenth and twentieth centuries, Iran had close links with the West; the elite in Iran sent their children to be educated in Europe and the US; trade links existed and a large number of western technicians and engineers were brought to Iran. The close links with Europe and the US from pre-revolutionary Iran meant that the more accepted style of management and enterprise was imported from the West. This is seen especially in second generation Iranian repatriates who returned to take over the family business. They have usually found it rather difficult to merge the different styles of management into organisations. As one IJV Iranian second generation manager who had studied in the West pointed out:

*In our company, I manage with different styles; there is the traditional style from my father which the workers understand; there is the US style which is aggressive and will not work on its own and there is the eastern style through our JV partners. Not many people accept the eastern style, but we sometimes need to use some practices for our partners.*

For a number of reasons, the preferred management style in pre-revolutionary Iran (pre-1978) was western-oriented, as many countries in the developing world assumed the West had the solutions to all management challenges. Based on a literature review conducted on management and administration in Iran, Amirshahi (1998) identified centralised power and authority and inefficiency as the norm in public sector organisations. The private sector showed a more authoritarian style of management, a lack of motivation, absence of participation and centralisation of management practice. As discussed earlier, comparative management and the divergence debate only started in the 80s and were developed further in the 90s. The eastern style of management was not known, developed nor discussed as Asia itself was following on the footsteps of the western management theorists at the same time.

However recognition for the East has changed considerably as now eastern countries such as Japan, China, Korea, Taiwan have excelled in identifying their indigenous management styles; some modified and adapted practices from the West and other practices were built around the specific cultures of the East.

Iran has not yet found her own management identity, however it appears that the path will be similar to the East as Iran has a multifaceted culture. There will be practices adopted from the West, from the Islamic world and from internal indigenous practices. It is the combined practices which need to work together to produce results. As summed up by one of the Japanese interviewees:

*The background to management in Iran is socialist. It is not a very market-oriented system but is geared more towards the labourers and protecting their rights. It does not think of the customer. Most Iranian managers use the European way of management. However, Iranian people tend not to think for themselves and are too dependent on receiving orders from their superiors. But if you give someone the chance to prove themselves, it creates a very good motivation in them.*

The changes in management in Iran from the Revolution to present day are summarised in Table 13.

**Table 13: Changes in Management Structure in Iran (1970 - present day)**

Event/ period	Macro- environment	Effects on Iranian management
<b>Revolution</b>  <b>1979</b>	<ul style="list-style-type: none"> <li>• Nationalization,</li> <li>• Reduction of women in labour market,</li> <li>• Migration of skilled and professional Iranian managers</li> </ul>	<ul style="list-style-type: none"> <li>• Gap in skilled manpower,</li> <li>• Lack of skilled professionals, able to manage industries,</li> <li>• Replaced by unskilled people due to nepotism factors; loyalty and trustworthiness, Islamic values</li> </ul>
<b>War</b>  <b>1980-88</b>	<ul style="list-style-type: none"> <li>• Reduction of normal business activities</li> </ul>	<ul style="list-style-type: none"> <li>• Crisis management, day to day management ,</li> <li>• No planning or internationalization,</li> <li>• Strictly import orientation</li> </ul>
<b>Reconstruction</b>  <b>1989 – 1997</b>	<ul style="list-style-type: none"> <li>• First stage of experiencing normality,</li> <li>• Pressure from different power factions within government,</li> <li>• Still run on ideological foundations</li> </ul>	<ul style="list-style-type: none"> <li>• First implications of management failure,</li> <li>• Export orientation drive gradually begins</li> </ul>
<b>Reform and restructuring</b>  <b>1997 - Present day</b>	<ul style="list-style-type: none"> <li>• Apparent need for skilled and professional managers,</li> <li>• Government trying to attract the Iranian brain drain back to the country,</li> <li>• National Iran – no help from western countries,</li> <li>• New alliances with Eastern countries and liberation from the west.</li> </ul>	<ul style="list-style-type: none"> <li>• Management schools and courses,</li> <li>• Iranian managers entering international negotiations and discussions on developing business,</li> <li>• Import and export driven, manufacturing under licence, joint venture relationships and strategic alliances formed gradually,</li> <li>• Difficulty in being able to manage the international relationships due to isolation from international arena for two decades.</li> <li>• New form of young Iranian managers returning from abroad, taking over family businesses.</li> <li>• Foreign companies influence management in Iran.</li> </ul>

Source: Author's notes

### **4.3 International Business Practices and Main Trading Partners**

Iran has always had a great respect for the western world's advances in technology, management, systems and structures. Despite all the upheavals, the list of Iran's main trading partners from before the Islamic Revolution has remained relatively unchanged and still includes Germany, France, Japan, Italy and the UK. Only the business with the USA has dropped significantly through its self-imposed sanctions on trade with Iran. In recent years, Iran has adopted a more eastward approach towards trading partners and foreign

investment and is looking more towards countries such as Turkey, China, Russia and India and other regional and Islamic countries such as the UAE. Presently the UAE is Iran's main trading partner. Furthermore, Iran's export-oriented trade policies have translated into greater trade links with her neighbouring countries. The export orientation has caused Iran to gradually compete in international markets. The overall effects of these developments is that Iranian companies need to become more international, abide by international laws and regulations and to do so must improve the quality and standards of their organisations and infrastructure to achieve a cleaner, lean, transparent type of company and management.

Iran has gradually improved the business climate to encourage foreign investment. The most significant moves in this direction have included a new foreign investment law entitled the Foreign Investment Promotion and Protection Act (FIPPA), a new Tax Code as well as liberalising the capital markets. Consequently, foreign companies are starting to take up the challenge to enter the Iranian market in JVs, strategic alliances, manufacturing licenses, subsidiaries, branch offices and so forth. This phenomenon has influenced the style and balance of management in Iran. Two aspects are of significance to this study: Iranian companies need to improve management styles to become preferred business partners of foreign companies and the presence of foreign companies and international JVs has increased competition for the country's most skilled human resources.

#### **4.4 IJVs**

There are two main forms of MNC entry into Iran: as a branch office or subsidiary usually registered in one of the Free Trade Zones, or as a JV. Companies prefer different routes depending on their activities in the Iranian market. For companies that mainly want access to the domestic market, a wholly-owned subsidiary is preferred, but companies eager to tap the region, look to Iran as a manufacturing base first for the high potential domestic market

but then for the regional market. For example, Unilever is registered in Iran as a wholly-owned subsidiary and currently importing its products but also looking at the opportunities for producing in the Iranian market, either by greenfield or as an IJV. Another example is Royal Dutch Shell, which is present in Iran both as an IJV and also as a subsidiary.

An up-to-date list obtained with great difficulty from the Ministry of Finance and Economy (January 2006) shows there are 217 registered IJVs based in Iran and the number is growing each year. This corresponds to a figure of over US\$10 billion in foreign investment in Iran over the last two decades. The emergence of IJVs was first experienced in the early 1960s in Iran, mainly including companies from the US, UK, Germany and Japan. A breakdown of the JVs shows that the majority are formed between western-Iranian countries (85 percent) while the remainder are between eastern-Iranian (15 percent) countries.

This most recent list shows the life cycle of the JVs since the 1980s to present. There were a number of JVs with US firms in pre-revolutionary Iran which have been discontinued or terminated. The breakdown in industries shows a concentration on light industries and includes telecommunications, automotive, textiles, machinery and equipment, mine exploration, foodstuffs and chemicals.

The most popular countries forming joint ventures with Iranian partners have been Germany (46 registered JVs), followed by Turkey (24 registered JVs), Italy (15), France (13), UK (11), India (11), UAE (8), Afghanistan (6), Holland (6), Canada (6), Sweden (4), Switzerland (4), Spain (4), Luxembourg (4) and Kuwait (4). Between one and four JVs are held with Armenia, Austria, Azerbaijan, Bahrain, Belgium, China, Cyprus, Denmark, Greece, Ireland, Jamaica, Japan, Korea, Liberia, Malaysia, Mauritius, Pakistan, Panama, Romania, Saudi Arabia, Singapore, Slovenia and Taiwan. Some countries register their JVs through their subsidiary offices. For example a South African company has registered its JV in Iran through its German subsidiary. Several US companies work through their European subsidiaries with Iran in order to avoid US sanctions.



## 4.5 HRM in Iran

As mentioned in chapter 2, the role of HRM is increasingly important in developing countries (Tessema and Soeters, 2006). Developing countries have similar HRM characteristics, such as low salary levels, ineffective performance standards, inability to retain or fire staff, poor use of expertise, poorly designed reward management and promotion policies, ineffective leadership, underemployment and lack of stimulating assignments (Cohen and Wheeler, 1997; Hilderbrand and Grindle, 1997, Tessema and Soeters, 2006). Iran's perception of HRM and its role are very different from that seen in developed countries. In some western and developed countries HRM is viewed more as a strategic function, seeking to achieve competitive advantage by making full use of human resources (Storey 1995, Lu and Bjorkman 1998). In Iran, however, the role of HRM is more primitive and basic and has been dependent on internal and external politics. The redundancy of female staff in top managerial and industrial sectors following the Islamic Revolution and the recruitment of large numbers of war veterans following the Iran-Iraq war are examples of this.

Mismanagement, demographic and economic challenges and the need for development are causing Iran to re-think the need for HRM. Although, it is fair to say that Iran has embarked on its HRM development, the speed of development will depend on organisational and dynamic business needs (Namazie and Tayeb, 2006; Namazie and Frame, 2007). Namazie and Frame (2007) identified the stability of the environment, the influence of national factors and the role of organisational strategies and practices as important factors in the development of HRM in Iran.

HRM is seen more as personnel management by many Iranian and foreign managers. As one of the Iranian interviewees stated,

*HRM is **more personnel management** and deals with very basic employee issues. HRM is not considered a strategic function of a company and neither are the employees of a company considered one of the main assets of a company.*

Although Iran is still quite far from seeing and using HRM as a strategic function to achieve competitive advantage, nonetheless internal and external factors have prompted the beginning of HRM. The external factors include the young population, unemployment, job creation, membership of international institutions such as the WTO, and the emergence of MNCs, which are putting pressure on Iranian companies to adopt strong HR practices if they want to retain their staff. The internal factors include the role of education, management style, preparing an international and professional workforce by replacing ideology with technocracy and so forth. The development of HRM in Iran will need to take on a strategic function if these challenges are to be met (Namazie and Tayeb, 2003, 2006).

At present the focus of HRM in Iran is more on hiring staff, getting them to perform and function efficiently in their jobs, providing some form of reward and compensation for employees to fulfil their jobs. Training may be given but it is not an important function within Iranian firms. As one of the interviewed Iranians stated:

*HR in Iran today is very primitive, especially in government companies. It is not seen as a strategic tool and employees are not treated as strategic tools but rather as short term value added to the company. Longer-term implications of how best to utilise your staff by training and developing them is not seen in government companies. This may be more acceptable in some progressive private companies but it is a rarity in any governmental or semi-governmental organisation.*

Furthermore, another public sector manager remarked;

*We have all the different HR functions but they all operate like different islands, we do not know how to bring them together and unify them for one purpose.*

Although the present workforce is educated it does not have multi-skills. This clearly is an effect of the past two decades of isolation from the international business scene. The workforce is unfamiliar with international working standards and also does not understand career path focus. This is gradually changing and improving with the entrance of MNCs and the internationalisation of many Iranian firms. The workforce working with MNCs in Iran is gradually becoming well trained and sought-after. Currently a number of Iranians are becoming international staff in other subsidiaries around the world.

In most public companies, lack of motivation is a very apparent problem. Employees just put in their time, do not show any creativity or enthusiasm in their work, fill the working hours in the day and go home. There is a problem with efficiency, productivity and performance. There are no formal appraisal systems, compensation packages are standard and based on government legislation and therefore do not encourage commitment or loyalty to employer or company. Compensation is not commonly linked to performance. This is slightly different in private companies, where profit-making is paramount and companies have stricter, tighter controls. Some companies apply their own systems of performance management, training and development and staff appraisal. To quote one Iranian manager working in a large public organisation:

*Even when young staff come to us fresh out of university with high hopes, ambitions and aspirations, after a few years in the public system, they lose all motivation and enthusiasm and become like the rest of the staff.*

#### **4.6 Culture specific HRM practices in Iran**

Cultural differences in HRM and management affect international relationships and can sometimes be partially responsible for the success or failure of international operations in a market. This section examines some of the culturally different aspects which might be crucial for foreign companies and IJVs in the Iranian market. Before proceeding, however, it is necessary to differentiate between public and private companies in Iran. The public sector as discussed earlier controls over 80 percent of the Iranian economy. This sector comprises mainly organisations confiscated at the time of the Islamic Revolution or major industries that were in government hands. The companies had a policy for recruiting for loyalty and not necessarily for skills and expertise. The lower- and middle-level workforce in these organisations clearly lack initiative, motivation and leadership. The benefits and

compensation packages are rather good and, although base salaries may not be very competitive, the benefits make the work worthwhile.

On the other hand, private companies are more flexible and profit oriented. For this reason the staff are developed better, incentives are tailor-made in some instances to retain and motivate key personnel.

### **Recruitment and Selection**

It is a common practice in many Iranian companies that recruitment is done through word-of-mouth and more informal channels. The reason for this goes back to the effects of the macro-environment and the history of Iran. Through an unstable environment, full of unexpected events and high risk factors, Iranians are generally suspicious and unsure of the unknown. In order to reduce risks, recruitment and selection of someone known and trusted is seen as better than recruiting a complete stranger. This also explains recruiting for loyalty rather than skills and expertise.

However this nepotism is seen more in higher managerial positions. In middle and lower staffing positions, recruitment is done through advertisement. According to one expatriate manager in one of the interviewed JVs:

*I have worked in many countries all over the world, but I am surprised at the level of nepotism apparent in Iran. If there is a job vacancy, immediately you receive dozens of CVs of people with qualifications unrelated to the job who are applying for the position because a friend or relative works in our organisation. We think there is a shortage of skilled staff but then we realise the advertisement has gone through the wrong channels.*

With the emergence of new recruitment agencies offering a professional service to companies, Iranian organisations feel the need to test the credibility of such a service, as one manager stated of the recruitment agencies:

*I gave them (recruitment agents) a recruitment case with great pessimism of the result.*

Multinational companies in Iran are more in favour of using professional recruitment agency services to avoid nepotism. An Iranian business person commented on recruitment and selection in Iran:

*If we can compare it to layers of a circle, the inner circle being the Iranian manager, the first outer circle is the immediate family, beyond that is the circle of friends and contacts and beyond that would be unknown and professional staff. This could easily be broken down even further into layers of friends' friends, etc. Family orientation, responsibility to the family, trust and loyalty are all important factors in the Iranian culture and play a role in recruiting staff.*

In Iranian companies selection factors may include age, education (with emphasis on the location and prestige of the university), grade achieved at university, work experience and prestige of company previously worked in. Selection in Iranian companies can use a very informal basis, depending on the years of experience in a related industry, personality and cultural fit of the individual or a very formal structure, where every factor needs to be tested and assessed. In private organisations, selection methods are quite simple and straightforward; individuals are selected mainly based on their related experience in the industry, years of work experience, development in the industry, personality and cultural fit and references. The age factor is quite important in Iranian organisations and normally a manager will not be below the age of 40. This is important because an older person will obviously have more experience in managing and also more experience in dealing with other people. But most importantly, the older manager will be more respected. To quote an Iranian proverb: "one must have a few grey hairs to be taken seriously"

If the person is recommended by a known acquaintance, the chance of selection is very high. If the candidates use well known names of familiar companies on their CV, this is considered a positive sign. Normally, once candidates have been selected, they will work on a trial period of three months before a formal contract is drawn up. Employment contracts are usually for one year initially, and if both parties are satisfied, the company might extend it to a number of years. Permanent employment is not a very common practice in Iran, mainly on account of problems with the labour law.

In public companies, especially the larger ones, the selection process is very rigid and inappropriate. Apart from a direct interview, candidates are asked to do various assessment tests ranging from IQ to personality. In addition, if a candidate has successfully passed all these tests, the hardest one remains: the ideological test, where the individual is assessed according to Islamic values. Many talented and potential candidates have failed this test and hence are not admitted to the company and will not be allowed to participate in any other job openings in the same company.

In multinational settings, the competence and experience of the individual is important. However in eastern multinationals, the age factor and seniority is very important in selection.

### **Training and development**

The training goals may be varied for different companies; some companies consider technical training more important, whilst others find managerial skills more important to develop. Organisations normally develop their own specific programmes based on each companies perceived needs of the business and their managers. But cultural views differ on how training is provided, by whom and for what purpose. Does the organisation want to develop know-how in terms of generalist or specialist knowledge; will the training be in-house or in the form of external seminars? Are university graduates rotated on jobs to develop a generalist knowledge base? If more specialist people are required, then it is important to hire specialists from the start. As one of the interviewed Iranian managers stated:

*Training and development is a growing tendency and there are many organisations now offering management training for personnel in different areas and courses. It is most important, however, for the courses to be modified to meet Iranian standards and not be a regurgitation of western management training which might be quite useless in this environment.*

Although training and development has not been paid enough attention in the past, it is gradually being recognised more. Technical training is already used extensively in Iran.

One of the main requirements for foreign companies entering the Iranian market is technical training for local staff.

Management development and training is also gaining in popularity. The training courses are usually external seminar programmes. Training is greatly appreciated by Iranian staff. In general Iranians are very education and technology-driven. It is quite common to see a person with an undergraduate degree pursue a graduate degree and then if possible a doctorate. Education is associated with a higher status and the term "doctor" is the highest and most respected title in the country.

However, although training is gaining in importance, it is not administered systematically. Public-sector companies may send staff of all levels for various training courses, but training is not evaluated. There seem to be excessive training budgets but no training-gap analyses to examine what the real needs are. Another important point is that companies prefer to have management training courses and fewer companies address skills-development courses. The programmes are also very much lecture based and theoretical.

Some multinational organisations are more careful in their training and development programs. Once an appraisal has identified needs, staff are designated for specific courses and the training must be applied in the job.

### **Performance Appraisal**

Performance measurement is important in Iranian as well as foreign companies, but how this is to be managed and measured varies and depends very much on how the organisation is viewed. In Iran organisations are very much social relationships, where managing people is perhaps more important than managing tasks. Performance management involves setting goals, measuring outcomes and providing feedback to improve performance. In Iranian companies the appraisal is basically an informal discussion between superior and subordinate and does not follow a structure. Staff would feel very insecure if they were called in for a formal performance appraisal. However, as such

appraisals are not common practice in Iranian organisations, they are not held at any specific time of the year and are rather an informal discussion to make sure everything is progressing smoothly. However, in many small, private companies appraisals are not conducted at all. In a number of public-sector companies, appraisals have gained some popularity, however, they are still not based on performance and can include administrative and disciplinary measures as well; as one Iranian manager remarked;

*The biggest headache (in HRM) is to create discipline and ensure staff follow the rules by using corrective action or punishment and giving rewards to people who have demonstrated an ability to further advance the goal of the organisation.*

In MNCs, appraisals are more common practice and several of the interviewed foreign employees have embraced management by objectives (MBO) programmes successfully. They believe this has helped to reduce job uncertainty by clarifying targets, roles and responsibilities and has also helped staff feel more relaxed about understanding the expectations of their boss. In addition, bosses have been very satisfied with MBO as it is a direct form of assessing the individual's performance and allowing the manager to provide financial incentives based on the progress of the individual.

### **Compensation and rewards**

Cultural differences also play a role in determining who is rewarded and how. Different cultures attach value to different types of reward and vary in the extent to which they believe reward should be individual or collective. Preferences for financial and non-financial incentives are also culturally-bound. The relative importance of money, status or holiday time varies across countries and affects their potential to motivate. Iranian labour law has a number of insignificant benefits and allowances. All companies follow the mandatory labour law requirements, but it is not sufficient to support staff and give them any motivation in their work.

Present economic pressures mean that most compensation and benefits programmes are financial. In public sector organisations, the base salary is rather low but



this is compensated with a supportive benefits program. Benefits include material products, such as food, groceries and sometimes a clothing allowance. In some companies longer employed staff may receive a house-purchase loan. These benefits make it preferable to work in the public sector. However, the system is bureaucratic and, overall de-motivating. For higher level managerial staff, the public sector has a better salary and benefits package and in most cases includes a car and mobile phone. However, even though the benefits packages are plentiful, they do not motivate staff. As one of the Iranian public sector managers stated:

*There is a problem with motivation factors and incentive schemes. Most incentive schemes are financial in nature and do not look at the longer term aspirations or ambitions of employees. Promotion of staff is not a very clear process. This is especially seen in governmental companies. Annual salaries may increase but promotions based on staff development with more defined responsibilities are more rare in government companies.*

A further comment on the public sector was:

*Government organisations have an HR office which deals mainly with bonuses and festivities. The concept does not address wider HR issues.*

The private sector has the flexibility to offer a better salary, however with a simpler benefits package. Nevertheless, individuals are also happy to work in the private sector as they feel they have more flexibility and potential to grow.

Multinationals, on the other hand, pay their local staff well and are usually in the upper quartile in salary. The benefits package follows all mandatory requirements by the labour law but also shows flexibility and adds other benefits such as club membership in some cases, a car and housing loan and so forth.

It is interesting to note, that since the emergence of MNCs, the fight for talent is starting in Iran, between the private sector and the multinationals. This in turn will have a gradual effect on the overall HR practices used by the private sector and in turn will put pressure on the public sector. This chapter has so far examined the Iranian context with regards to the environment, management styles, HRM and culture-specific practices. The following section will examine the research findings in the studied JVs using questionnaires.

## 4.7 Research findings from phase (a)

Research findings from research stage one are discussed in this section. Phase (a) of research stage one examined the environment in Iran to set up IJVs and phase (b) looked at the Iranian management style, national culture and HRM.

Respondents believed that Iran was an important country in the region to invest in, with good export potential, as comments below show:

*Iran has a great amount of natural and human resources which is attractive for foreign companies.*

*Iran is in a key location to the Central Asian republics to the north, Turkey to the west, Iraq and the Arab world to the west and south and to Pakistan and Afghanistan to the east. Iran is an important country in the geo-political map.*

*Iran is an important location with great export potential to the region.*

*We (the MNC) have technological know-how and the Iranians have the resources, it is a good business opportunity.*

Iranian respondents confirmed (by order of most frequently quoted comments to least) that by entering an IJV they gained the following attributes:

- Access to information and new technology
- Access to international networks and markets through the MNC partner
- Gaining experience in the market and industry
- Being set on the path to become international
- Awareness and implementation of international standards, such as quality control, marketing, sales, strategic planning, manufacturing
- Learning new concepts in management, marketing and logistics
- Iranian company benefits from higher turnover, more profits with less risk than doing it alone

The foreign partners' views of advantages of entering an IJV (by order of most to least frequently quoted comments) were as follows:

- Expansion into a new market
- Getting a foothold in a market before the competition
- Manufacture of new products with export potential to new markets
- Increased turnover, sales and market share
- Low labour costs
- Low price of raw materials
- Low transportation costs to Middle East and Asian markets
- Tapping a large market in Iran and the region.

The greatest difficulties respondents faced in entering Iran were:

- The foreign investment law (FIPPA) and repatriation of funds

*Investment in Iran is very difficult. Problems arise from investment, laws, operation, implementation.*

*In some areas the JVs work well together but they also face problems. Most of these problems are due to the laws and regulations and the FIPPA regulations and the repatriation of money.*

- Changing and unstable laws

*...other problems are the unreliability of regulations which change often.*

*The internal situation in Iran does not provide much confidence to investors, with political instability and economic pressures. In this environment, laws frequently change and the potential and threats to foreign investment are still being debated for fear of exploitation of the country.*

- Very slow and bureaucratic process

*You can set up a JV without any protection in two weeks, but a JV with protection takes between 4 – 6 months to be set up.*

*It is very slow, laws are constantly changing, the environment to attract foreign investment is getting better, but one has to be very patient and keep sight of the light at the end of the tunnel.*

*All you need is patience, patience and patience.*

- Bureaucracy and lack of coordination of ministries

*There is no coordination between ministries and organisations.*

*...bureaucracy, getting things done, finding people who know how to get things done and who know the rules properly.*

However, these comments have to be seen in light of the fact that Iran is located in the Middle East, which is a rather unstable geopolitical region. All interviewees stressed that Iran is generally a difficult country to work in, both for Iranian companies and more so for foreign companies. These comments reflect the views of both Iranians and foreign expatriates. The difficulties can be summarised under main headings:

- Lack of clarity with the investment law,
- Instability of laws, where a law may change suddenly without any form of compensation to people or companies who have suffered through the change in legislation,
- Complex legal and political structures (especially labour law, repatriation of foreign investment and tax law on expatriates),
- Lack of communication within and between authorities,
- Bureaucratic structures and policies,
- Weak infrastructure, making investment opportunities more risky,
- Tense social environment and de-motivated staff,
- Relationships and connections are very important which can lead to corrupt practices.

The comments from the interviews show that Iran's external environment is still not stable enough to attract foreign investment easily. The organisations and laws for foreign investment do not encourage multinationals to invest in the country; on the contrary, as a result of internal uncertainties, the laws limit and discourage foreign investment. The political

situation is in flux, there are numerous economic and social hindrances to the attraction of foreign investment and international business, and even national business in Iran. 2006 saw further international discussions about Iran's nuclear programme and the prospect of sanctions imposed on Iran by the UN Security council, which are examples of on-going concerns for Iran if she hopes to attract more foreign investment.

#### **4.8 Research findings from phase (b)**

The next research stage, phase (b), was to collect data on the management style in Iran, national culture and the understanding and application of HRM in Iran (whether it is seen as a personnel function), and the difference between public and private sector companies. The aim was to obtain a wider perspective from other Iranian managers and some foreign managers based in Iran regarding the style of management in Iran and the influencing factors. Ten semi-structured interviews (refer to Appendix III for interview questions) were conducted with a cross-section of Iranian managers in the private and public sector: the sample included those applying traditional Iranian management and those who had been educated abroad and had returned as second generation managers taking over their family businesses, young and middle-aged managers.

The companies were selected using existing contacts with Iranian industry, recommendations about successful Iranian managers and information from companies listed on the Tehran Stock Exchange (refer to Appendix I for complete list of interviewees). There were six Iranian managers from industry, two university professors in organisational behaviour and management and HRM and two foreign representatives belonging to Chambers of Commerce (German and Japanese). Ten interviews were conducted in total. This information has proved valuable in understanding management and HRM in Iran; through its origin to where it has evolved.

## Interview results

The responses have been analysed under headings according to their content, with direct quotations.

Management in Iran was known to have the following characteristics:

- Iranian management has had many influences from the West and from traditional Iranian culture

*Iranian management is unique in the sense that it comes from a very unique cultural background. It has both European and Asian management styles. European and Asian in terms of wanting to provide good quality and Asian in terms of warm hospitality and social values.*

Some companies use both western and eastern styles, as one of the respondents noted about his company:

*The main western inputs are seen in the company's policy to be democratic and transparent, where we hold regular management and staff meetings. Also the company tries to incorporate a long term strategy and planning in the affairs of the company which is an eastern approach. Trust and loyalty are also important factors.*

The comment above shows that Iranian management is trying to incorporate elements of western management practices such as democracy, long-term planning and also eastern values such as paying attention to trust and loyalty.

The following quotes show additional viewpoints towards management styles in Iran:

*Iranian management is a more traditional function in a merchant or Bazaari mentality. It is focused on trading activities such as the purchase of goods with low prices and does not involve issues such as production and human resource management.*

*The Iranian management style is more an imitation of the western style. The main difference being that Iranians think very short term. Therefore investments are only of interest to Iranians if they have a fast return. The reason Iranian managers are so short term is mainly due to the instability of the environment. For example, a company involved in exporting can suddenly find the export regulations have changed overnight with no considerations for the manufacturing companies losses that will be incurred with such an act.*

*The background to management in Iran is socialist. It is not a very market oriented system but is geared more towards the labourers and protecting their rights. It does not think of the customer.*

*...the Iranian style of management is more paternalistic whereby most decisions and actions rest on the managing director who is seen to be the highest authority within the company and organisation.*

The above comments show the different facets of Iranian management as seen by foreigners and Iranians (private and public sector) working in Iran. The comments support the view that management in Iran is based on a combination of western, Islamic and traditional values. The Islamic values may be seen in the comment above about protecting the rights of workers and labourers and the importance of trust and loyalty. Also paternalism was mentioned where the managing director is seen as a father figure to the rest of the staff.

- Short-term perspective

The short term orientation was seen clearly in the Iranian style of management, as the following quotes by Iranian managers' show;

*In Iran there is no planning and things get put off daily. There is no culture to get things done on time. People should be taught how to plan ahead on a weekly, monthly and yearly basis.*

*The average western company has a long term vision whereas the average Iranian company has a very short term vision and these differences need to be taught to both sides in order for them to better understand each other before entering collaborative agreements with each other.*

*Iranian managers do not know how to think long term and strategically. When unskilled personnel (meaning at the time of the Islamic Revolution) were placed in top managerial positions, no one thought of the long term implications this would have on the company and on the industry, and hence the waning of Iranian industry, which was once at the forefront of world industry and a runner-up to high technology in the developed world.*

- Lack of delegation, decision making, responsibility and the effects of paternalism

*Iranian people tend not to think for themselves and are too dependent on receiving orders from their superiors. But if you give someone the chance to prove themselves, it creates a very good motivation in them.*

*The effects of paternalism are 1) the over-dependency of the staff on the managing director and management, 2) the lack of decision making within the staff and 3) causes inefficiency in the managing director as his time is taken up by answering simple questions and making decisions which others should be making.*

*The Iranian manager always takes all the responsibility for things and checks everything himself, delegation is weak. Iranians think more negatively than positively, they think more that they can not do something and they reason their failures and shortcomings. They do not question how they can improve and better themselves. There is not enough action in Iranians.*

*Iranian staff lack the ability and power to use their own initiatives and thoughts.*

Comments on the differences perceived in the Iranian management style in comparison to other styles of management used or seen in other parts of the world were:

- Lack of participative management and style of management
- Work culture, ethics and perception of work
- Team working and decision making
- The issue of trust
- Do not want to share information
- Different perception of time
- Different style of negotiation

There has been a trend in the management style of Iranian enterprises to move from traditional to more advanced and progressive. One of the interviewees identifies this development as due to the following reasons:

*One of the reasons for this change is increased industrial production. The industrialisation process began in the late 1960s, when some bazaaris were forced into production and they found they could no longer run their operation as a simple trading activity and the new operation entailed some new techniques which they had to learn or for which an external manager was needed.*

*Another reason for the change in management style is the entrance and emergence of joint ventures which has caused Iranian managers to adopt more modern management practices. Some Iranian managers had to respond to the needs of their foreign partners and therefore had to produce budgets, plans, schedules and sales targets. Due to these factors, the Iranian*



*managers needed to learn these new skills and adopt them within their own practices.*

*Additionally, export orientation has also been very important in the development of Iranian management styles because as Iranian companies found they need to export their products, they have learnt and understood how to be more professional in terms of their packaging, marketing, distribution, etc. Once export enters the equation, a traditional approach can no longer be sustainable or possible.*

These are valid perceptions of the development of management in Iran. The level of industrialisation has no doubt had an effect. Additionally the emergence of international players in the market, such as MNCs, has put pressure on Iranian companies to meet international standards and, finally, export orientation has also forced Iranian companies to see their products in relation to international markets and to learn more about internationalisation of products and management competencies.

However, although there is a trend to move towards more modern approaches to management, another facet of Iranian management style is the lack of appreciation for organisational structures. This is because society is based more on personal relationships and connections and managers rely more on people and not on divisions, structures or systems. However, it can be said that modern approaches learnt from working with foreign companies are causing the appreciation of organisational structure to grow slowly.

All the interviewees remarked that Iran's management style is more western oriented, but it is more an imitation of the western management style localised, or based on Iranian political, economic, cultural and operational realities. This imitation of western practices can be seen in the wealth of management books which are immediately translated into Farsi and distributed in the market. Students and managers alike are recipients of these books. Iran's business and trading links are also more western in that Iran deals with western countries more than it does eastern countries. An Iranian IJV manager in an IJV with a Japanese company stated:

*The style of management in Iran is a hybrid style; it has taken something from the west and our own traditional style of management and combined it into this new hybrid style.*

However, at the same time, the understanding that western management concepts can not just be implanted intact into Iran comes from another public sector manager:

*In the light of Iran's preference for western management practices and approaches, importing those practices such as Total Quality Management into Iran would be unsuccessful. The reason being, that it has to be adapted to the Iranian culture and mentality, as each of these management fads have been designed for a certain cultural orientation.*

Iranian national culture factors were discussed by respondents as:

- Short term thinking

*They are short term thinkers, there is a lack of delegation, they are individualistic and suspicious and not trusting of others.*

- Family orientation

*Family orientation, responsibility to the family, trust and loyalty are all important factors in the Iranian culture.*

*The average Iranian employer tries to employ family or close friends and does not immediately think of employing professional staff. If we can compare it to layers of a circle, the inner circle being the Iranian manager, the first outer circle is the immediate family, beyond that is the circle of friends and contacts and beyond that would be unknown and professional staff. This could easily be broken down even further into layers of friends' friends, etc.*

*There is a lack of appreciation for organisational structures. This is due to the fact that society is based on more personal relationships. Hence managers rely more on people and not on divisions.*

- Individualistic

*Iranians are individualistic and not collectivist. They also regard each other with suspicion and trust only their immediate families.*

*In terms of individualist/collectivist, Iran is seen more to be an individualistic country. It would be much harder to see Iranians work in a team together. This also goes back to the culture of being envious of someone who is in a better position than you and hence being disruptive in a group atmosphere.*

Although Iran is known to be more collective in relation to the family, in work situations Iranians are seen as very individualistic.

- Hierarchical (high power distance)

*Iranian people tend not to think for themselves and are too dependent on their superiors. They do not take responsibility for things.*

*One of the problems in Iranian mentality and culture is the hindrance to free-thinking or one using his/her own initiative. It is part of the Iranian culture. This can also be seen in industry, i.e. many companies copy each other and copy other people and other companies' designs, in product, brand, promotional material, etc.*

- Islamic, traditional and western oriented

*Islam is a symbol to correct the Iranian people's spirit, keep them governed and unified and is necessary for the Iranian people.*

*It is important to remember that Iran has been a country who has always looked up to the western and developed world. Iran's role model has always been the west and not the east, even though the Iranian culture is more an eastern oriented culture.*

The main point made by all interviewees, foreign and Iranian alike, concerning national culture was that Iranian managers base their decisions and actions on the short term. They also noted the influence of family orientation and responsibility to the family, however the individualistic nature was seen clearly at the work place. Lack of decision making, delegation and taking responsibility were discussed in the context of a hierarchical system where the main authority to take decisions were superiors. Finally the combination of identities; Islamic, western and traditional were seen as part of the Iranian national culture and this effect was also seen in the management styles.

Public and private sector management styles showed differences in bureaucracy and flexibility or speed of response respectively; as quoted by respondents:

*The Iranian public-sector management is very difficult to understand. In public-sector management, people do not make their own decisions and there always seems to be pressure from superiors. Private companies are different and one can see the difference and effort in them. They are trying to manage the companies better. They are more flexible.*

*A further problem has been the bureaucratic nature of Iranian public companies and any individual with any degree of initiative can easily lose this focus in a bureaucratic environment.*

Respondents commented on their view of HRM in Iran:

*HRM in Iran is more personnel management and deals with very basic employee issues. HRM is not considered a strategic function of a company and neither are the employees of a company considered one of the main assets of a company.*

*HR in Iran today is very primitive, especially in government companies. It is not seen as a strategic tool and employees are not treated as strategic tools but rather as short term value added to the company. Longer term implications of how best to utilise your staff by training and developing them is not seen in government companies.*

*Another major gap and problem in the development of HRM in Iran is the fact that most Iranian managers come from engineering backgrounds and not social sciences. Most of them do not have any management training behind them. They lack the education, training, experience and knowledge.*

*Universities in Iran also add to the gap in HR knowledge as there are no HR courses offered. The importance of HRM is just beginning to be heard and felt in Iran.*

*The key challenges which face the development of HRM in Iran, include the lack of knowledge and belief in the importance and indeed strategic nature of HRM.*

*HRM is not supported or understood by senior management, the key people who need to support the HR function.*

These comments support the view that HRM in Iran is seen as personnel management and also lists some of the reasons for and challenges to the development of HRM.

#### **4.9 Summary of Research Stage 1, phases (a) and (b)**

From this first research stage including both phases (a) and (b), the following conclusions were drawn:

- Iran is seen as an important country to enter, however with many internal and external environmental challenges.
- Both sides (local and host company) see the advantages of entering an IJV relationship.
- The environment is unstable and there are many risk issues, including political, economic, legal and social.
- The main challenges are seen in the instability of laws and regulations, bureaucratic systems, lack of communication between authorities and weak infrastructure, all of which give rise to a de-motivating environment for staff.
- Management in Iran is a combination of different styles including western, Islamic and traditional. It is more short term, lacks delegation, participation and sharing of information, team work, decision making and trust.
- National culture elements included a short term orientation, family orientation, hierarchical nature, individualism and a combination of different identities (western, traditional and Islamic).
- HRM in Iran is not seen as a strategic function; rather it is more personnel management; controlling and administering staff.

## **CHAPTER 5: RESEARCH FINDINGS**

## **5.0 Introduction**

This chapter collates the findings from stage two, phases (a), (b) and (c) of the research, dealing with the following data:

- the IJVs
- the internationalisation of HRM in MNCs
- the application of HRM to the IJVs
- the macro-environment
- the micro-environment
- the degree of influence of these environments on the transferability of HRM.

The findings reported here paint a picture of the backgrounds to the IJVs and those factors in the MNCs and the macro- and micro-environments that affect the overall operability of an IJV. The author believes that, given the gaps in the literature on IJVs, especially in developing countries, it was important to be able to understand the specific influences that managers in these ventures experience in executing their responsibilities. HRM was seen to be an integral part of the overall operation, subject to the same influences as all other management functions in an IJV. With this background clearly identified, the author is then able to report findings specific to the transferability of HRM to IJVs.

### **5.1 Findings on the IJVs**

The findings reported here reveal:

- How and why partners were selected,
- The contributions made by each partner,
- The partners' perceptions of strengths and weaknesses of the IJV.

## **Partner selection**

In five of the IJVs, both partners had worked together before. The local partners were at one point agents of the MNC in Iran (PASH, Castrol Iran, Behtotal, SEI and SWEDEC). Partner selection in these IJVs was due to the past history of working with the partner and their pre-existing relationship. For these partners there was no other company they would have chosen.

In three cases, the partnership offered a good opportunity for the Iranian or foreign partner to enter a new market and internationalise (Henkel-Pakvash, Savola-Behshahr and ASPC). The main choice and reason for choosing these partners was based on market share in the local market, size of partner companies, access to latest technology and being a world class leader in the field.

## **Each partner's contribution**

All eight IJVs reported that both partners had made contributions, emphasising the MNC's contribution. The MNCs' contributions (in order of most frequently made statements) were:

- technology, including equipment and machinery,
- expertise including operational skills, contacts, international markets, know-how,
- capital and equity,
- brand and trademarks,
- standards, quality and products,
- management control.

The local partners' contributions (in order of most frequently made statements) were seen as:

- local knowledge and facilities (local market, country and industry knowledge, distribution channels, contacts, factory and equipment, staff and warehouses),



- access to the local market,
- access to local finance,
- credibility and reputation,
- product base.

These findings confirm the literature in showing that the MNC provides the IJV with upstream resources such as funding, brand and production technology (Connolly, 1984; Pan, 1996) and the local partner provides downstream resources such as awareness of local markets, access to distribution channels, personnel (Inkpen and Beamish, 1997; Kale and Anand, 2001), knowledge of local regulations and access to governmental authorities (Kale and Anand, 2001). Neither partner referred to shared risks or ensuring the degree of commitment by the local partner as significant despite these points emerging from the literature.

### **Strengths and weaknesses of the IJVs**

Most of the IJVs interpreted the question relating to their strengths and weaknesses, as referring to the strengths and weaknesses of operating in Iran. Most stated that the size of the Iranian market was its greatest strength, in addition to the excellent opportunity for companies to make high quality, low cost products. In order of importance, the following strengths were reported:

- the size of the Iranian market,
- excellent opportunity to make high quality, low cost product,
- technology, machine shop, project management,
- high standard of factory and good work management,
- being a 100% Iranian company,
- being with the private sector (less bureaucracy) and having one partner.

Concerning weaknesses, respondents focused on both operational and local external factors. Cultural and management differences were reported as the greatest weakness, followed by government controls on prices, HRM, partners having different objectives. The perception of the IJV as an Iranian rather than international company was also reported as a weakness because international companies are seen to have more transparent and dynamic management structures, access to international markets and better development opportunities for staff. Two IJVs reported they had no weaknesses. By order of most frequently made statements, the following points were reported (some supporting quotes are included):

- Cultural and management misunderstanding

In the words of the SWEDEC Managing Director:

*The weakness is in the middle management, the success of the IJV is very much dependent on the Iranians and how they work,*

In the words of the Savola-Behshahr HR Manager:

*Weakness is the unwillingness of the Iranian partners to change, lack of leadership from the foreign side and lack of cultural knowledge of Iran,*

- Government control of prices
- Middle management, finding financially competent staff and HR in general

In the words of the SWEDEC Managing Director:

*I didn't realise HR was going to be our biggest problem, the next biggest failing I found was in finance.*

- Each partner has different objectives and time scales

In the words of the ASPC Deputy Managing Director:

*The weakness is that both partners have different objectives; NPC needs to create jobs. Sasol wants to create wealth which will ultimately turn into job creation.*

- Over-ambition and impatience on the side of the local partner

The Castrol Iran Board Member noted,

*The biggest one (weakness) is probably a lack of understanding by the (local partner) as to how long a start up business takes to get to where you want it to get, so over-ambition frankly.*

- Being perceived as a 100% Iranian company is also a weakness,

As the Shell Finance and HR Director (speaking of the PASH IJV) explained, while national pride in an Iranian company is ostensibly a strength, it translates into a weakness:

*The strength is that people look at PASH and see it as a 100% Iranian company. The weakness is exactly the same thing.*

The findings in response to the question about partnership selection support the view held by Perry (2001) that the most important factor in attracting foreign investors is profitable business opportunities. That cultural and management differences were reported as the greatest weakness, supports the literature describing the main problems commonly associated with IJVs as those due to different management styles and differences based on national cultures (Brown, Rugman and Verbeke, 1989; Fedor and Werther, 1996; Harrigan, 1988; Nam, 1995; Tsang, 1995).

## **5.2 Research findings on the role of the MNC**

The findings reported in this section discuss:

- The strategic role of HRM in MNCs
- The internationalisation of HRM in MNCs
- The application of HRM in the IJVs.

## The strategic role of HRM in MNCs

It was seen from the literature that human assets are an emerging source of competitive advantage for MNCs (Bartlett and Ghoshal, 1991; Schuler and Rogovsky, 1998) and that HRM is evolving from being a support function to one of strategic importance (Teagarden and Von Gilnow, 1997). However, the literature also revealed that no consensus exists in what constitutes the strategic function of HRM, different countries apply different applications in response to the influence of national factors and organisational strategies (Brewster, 1993; Clark and Pugh, 1999; Tayeb, 2001). This research section was concerned with the strategic function of HRM in the MNCs based on the premise that many different interpretations and stages of that function were likely to be seen.

Firstly, the MNCs Shell, bp, Total, Schneider Electric, and Sasol used the word “strategic” in their explanations of HRM. Henkel, Cameron and Savola did not. Shell, bp, Total, Schneider Electric actually applied strategic HR throughout their organisations from head office to subsidiaries. Shell, bp, Total and Schneider Electric are MNCs operating in 100-140 countries worldwide and with workforces of 88,000 – 112,000 worldwide. The Finance and HR Manager of Shell stressed;

*Yes, it is very strategic because of the nature of our projects. Firstly Shell operates all over the world; places you find oil are not necessarily places you find talented people. Secondly, the scale of projects we have means very large levels of recruitment. It is not impossible that we will hire between 400-500 people in Iran over the next 5 years, so HR is immediately a strategic thing, in terms of hiring and developing those people so you don't have to bring in expensive foreigners.*

The HR Manager of bp Iran explained;

*Yes, HRM is 100% strategic, because in bp every individual is responsible for the performance and reputation of the company. Therefore It is important in recruiting the right people to the right positions, helping their growth and development in a way that they can work towards the overall performance of the company. HR has become a strategic function and at present it is in transition. HR has changed from a supporting role to become a more strategic role.*

Although Sasol mentioned the strategic nature of HRM as clearly seen in the quotation below, it did not apply this in its subsidiaries:

*Sasol has used the Dave Ulrich model, which brought in the principle of HR being a strategic business partner. From that point of departure they then developed some (HR) services which they believed would add value. In other words yes, it is very much strategic. You have to form part of a group that develops people strategies that are aligned with business strategies. That is why the HR Director forms part of the Sasol Board of Directors. That is where HR is represented. That is where the strategy is being approved, that is where it is rolled down and that is where the whole structure has been changed.*

(Sasol HR Consultant)

Other MNCs that talked about HRM being strategic but did not appear to apply them in the IJV were Henkel, Cameron and Savola. As the HR Manager at Savola-Behshahr remarked;

*Even after the training I received in Jeddah (Savola headquarters) on the HR material, they (Savola managers) gave me their own personal opinions, saying that 85% of this material is not even used by Savola.*

Henkel, Cameron and Savola all are smaller companies, operating in 125, 50 and 6 countries respectively and have between 70,000 to 15,000 staff in the markets in which they operate. Sasol is operating in 10-15 countries and has a staff of 30,000 employees.

In support of the findings, the author believes there are different reasons for the dichotomy in MNCs application of strategic HRM: one is that some of these companies are just beginning to internationalise. Sasol only began internationalising in 1999 and Savola also around that time. The size of the MNC, the business strategy and model, the investment and market size are additional reasons, as supported by Budhwar and associates (Budhwar and Debrah, 2001; Budhwar and Sparrow, 1998, 2002), who note national factors, contingency variables and the industrial sector as influences on the development of HRM in countries. These companies are learning as they go, through trial and error. Undoubtedly, they will eventually iron out the problems in their systems, and take an approach similar to that of the bps, Totals and Shells of the world. However they are still on this curve of learning through growth and mistakes. Sasol's HR Consultant commented:

*Probably in time to come, when Sasol go into China and India, you will have to start to learn so you do not go on doing things the same way, because you are frustrating the people who you are working with.*

The findings above reveal the extent of variation in the understanding and application of strategic HRM among the MNCs and subsidiaries.

### **Internationalisation of HRM**

The findings from this section indicate to what extent HRM is transferred from the MNC to the IJV. They reflect the literature stating that MNCs will generally adopt a polycentric strategy, taking a combination that blends both standardisation with local responsiveness (Doz, Bartlett and Prahalad, 1981; Hannon, Huang and Jaw, 1995; Lu and Bjorkman, 1997; Prahalad and Doz, 1987; Schuler, Dowling and De Cieri, 1993; Taylor, Beechler and Napier, 1996). Furthermore, they confirm that MNCs need to be sensitive to the cultural and institutional frameworks of the host countries (Myloni et al., 2004), a point that was raised by some of the respondents, for example the Managing Director of SWEDEC remarked:

*HR is very culture sensitive, I can't take the (HR policies and practices) UK and put it into France, and I can't take the French one and put it into Spain. It's definitely a cultural thing. I think we are very cultural now, I'm into kissing men now.*

The responses below also support Geppert et al.'s (2003) view that global firms acknowledge the need for adaptation of policies in different subsidiary operations, showing the significance of adapting practice to account for local institutional constraints.

The findings show that in all cases, except Henkel-Pakvash, the MNC provided the HRM model, templates, global policies and practices, but each IJV had the freedom to decide how to use this. As the IJV HR Manager of SEI stated:

*The HR policy comes from HQ, the reality comes from Iran. This policy applies to all subsidiaries.*

Similarly, the bp Iran HR Manager commented:

*Total has a standard approach towards people, policies and principles, the way it is implemented takes local norms into consideration. We implement main policies in each country by taking care of the local context and local law and culture and we have to adapt our group policies accordingly.*

In the words of the Savola-Behshahr HR Manager:

*Each country where Savola operates has taken these tools (from the HR Academy) and has localised it and has taken advantage of the knowledge. All the academy does is give feedback on best practices, but each company can decide themselves.*

Some MNCs had a different approach to the IJV from the subsidiary. In the cases of Shell and Total respectively, although they were happy to provide templates and HR information, they left the IJVs very much to themselves. As reported by the Shell HR and Finance Manager:

*The management of JVs comes down to being quite interesting in Shell where we have a very light, hands-off model on JVs compared to some of our other companies. These JVs can be anywhere and have to adopt their own policies. Shell would not go through all the HR stuff, such as competency-based development and mentoring, they wouldn't do all that for a small venture, it's too big a task.*

In Total, the feedback from the MNC HR Manager was that Behtotal is on their own, they can receive help from the Total Group, but in general they make their own policies and practices. The HR Manager in Total commented:

*The particularity of the JV is that it is managed more independently than any subsidiary of Total company, because they are not exactly a subsidiary, they are independent companies where we are shareholders. They have their own policies and regulations and they are not obliged to follow the policies of Total group, mainly they are following the policies of the home country.*

This statement also supports the view point towards IJVs, that they are considered a new and legally distinct entity, legally and organisationally independent and detached from the original partners (Buchel, Prange, Probst and Ruling, 1998)

In the cases of Shell and Total, HRM in IJVs is treated differently to wholly owned subsidiaries. The other MNCs did not make this clear distinction between IJVs and subsidiaries but only commented that HR policies and practices are provided but the

implementation remains local. Total and Shell also noted that the size of the venture affected the role of HRM. As the comment below from the HR and Finance Manager of Shell shows:

*A lot of why JVs are left to adapt their own policies is because of the size of the JV.*

### **Application of HRM policies and practices in the IJVs**

The findings here are concerned with the application of HR policies and practices and to what degree they are standard or local practice.

HR policies and practices are completely localised in two IJVs: Henkel-Pakvash and Savola-Behshahr. PASH seems to be more localised at this point, however during the tenure of the ex-Dutch MD, the HR policies and practices were much more standard, whereas today they are more local because they have an Iranian Managing Director appointed by the local partner. The reasons given for the localisation of HR policies and practices were:

- the change of management—the IJV now having an Iranian management,
- not having a real HR function (this has fallen on the Managing Director —possible change might come again either with the board interfering more or if the IJV has management control),
- small size of organization and number of staff,
- small start-up capital for the venture,
- not knowing the local market and local laws,
- HR not being a strong priority,
- not being able to transfer HRM from the MNC in an organised way,
- the Iranian partner has a better understanding of local culture and laws,
- stronger local partner—it is mainly handled and decided by the local partner which has had its own policies for the past 50 years and resists change.



In Henkel-Pakvash, the Managing Director stressed the role of the MNC:

*Their (Henkel's) strategy in most countries was to have a majority ownership. Perhaps it was their strategy not to interfere and intervene with the local law. They respected what local law and local management believes, as long as the law and practice is not violated. They would not interfere in any HR area.*

Although the MNC maintained ownership control, it was their policy to leave overall management of the IJV to the local partner.

The HR and Finance Manager of Shell remarked;

*Right now, it seems it is very local, reasons could be the change of management, now having an Iranian management, another reason could be that there is no real HR function if that has fallen on the MD, possible change might come again either with the board interfering more or if you have management control. It comes down to a circle of things, size and number of staff, the start up capital for the venture was small.*

Finally, the HR Manager at Savola-Behshahr stated;

*Because Savola is not pushing this, it is mainly handled and decided by the local partner who have had their own policies for the past 50 years and resist the change.*

Castrol Iran, Behtotal , SEI, SWEDEC and ASPC have more standard HR policies and practices. However, ASPC is still working on its policies and practices, which have still not received board approval, but after such approval their HR policies and practices might become more local. The respondents gave the following reasons why HR policies and practices in the IJV are more standard:

- this is just the way it is done in subsidiaries and JVs,
- it is believed to be more efficient by the MNC,
- having an MNC nominated Managing Director means they think like the MNC they want everything very formalised so they can have consistency,
- decisions come from HQ/ centres of expertise, which give tools and frameworks.

The HR Manager at SEI added;

*The decision to standardise was more efficient also HQ wanted to standardise. However, there is also flexibility on some local practices which are culturally sensitive.*

Behtotal's Managing Director remarked:

*We reached these decisions mainly through not knowing the local market, sometimes we were not aware of local laws. Also some local practices were just not acceptable to MNCs, eg employment and raising the salary to the announced annual minimum salary level.*

The HR Consultant at Arya Sasol said:

*We talk and think the Sasol way, which is to formalise things. We want everything very formalised so we can have consistency. However, I think the local HR knowledge is definitely important.*

The Managing Director of SWEDEC remarked:

*Overall HR is much more standardised. Areas which are more culturally sensitive seem to be more localised. The Iranian partner and Chairman of the Board is like the oracle, he has been in the country a long time and understands commerce; he reads his own people better than we do. He is a major focal point for the way we have handled the local system, so when it comes to evaluating personnel we always ask him. He has a major influence on policy.*

It is clear from respondents' comments that a standardisation policy from the MNC has to be reassessed in the IJV to take account of national culture and local laws. Although all IJVs commented that a polycentric strategy was important, in reality the level of localisation was not clear nor was it entirely welcomed by the MNCs. In the author's analysis, polycentrism would include from "more standard" (2 on the 5-point Likert scale) to "more local" (4 on the 5-point Likert scale). It would not include completely standardised. In the case of "completely localised", the role of the local partner would also have to be evaluated to assess whether the MNC had a polycentric approach or whether there was no involvement from the MNC.

In the author's analysis this suggests that polycentrism, although ostensibly favoured by the MNCs, remains a difficulty for them for two main reasons. Firstly, their standard practices are tried and tested and are easy for them to roll out in a new venture, so for them to modify these involves extra effort. Secondly, each new country poses a new set of conditions that may conflict with their existing values and policies. This is in line with the

academic discussion on whether HRM should be standardised to MNC global integration or localised to practices in the host country, or should blend standardisation with local responsiveness (Doz, Bartlett and Prahalad, 1981; Hannon, Huang and Jaw, 1995; Lu and Bjorkman, 1997; Prahalad and Doz, 1987; Schuler, Dowling and De Cieri, 1993; Taylor, Beechler and Napier, 1996), or adopt a hybrid strategy and opt for what fits best with each subsidiary's local conditions (Tayeb, 1998). The chosen strategy can depend on preferences of the MNC, local conditions, industry characteristics, the nature of the competition, the socio-economic conditions of the target country, and political and legal requirements, the structure of operations, international orientation of headquarters, and the company's experience in managing international operations (Jackson, 2002, Schuler et al. 1993, Tayeb, 1998).

No causal relationships were found between the size of the MNC, age of the MNC, age of the IJV, industry, ownership structure (percentage ownership), type of local partner (public sector or private sector), country of origin of MNC and the decisions to standardise or localise. Nobody mentioned any of these points as a reason to dictate the level of localisation or standardisation.

### **5.3 *Research findings on the Macro-environment***

This section reports findings that relate to the influence of the macro environment on the general operation of the IJVs. It includes:

- common problems expressed and their effects
- management and national culture
- effect of nationality and country of origin.

## Common problems due to the macro-environment

The key problems are summarised below in order of most frequently made responses with illustrative quotes:

- lack of clarity in laws, bureaucracy related to obtaining the IJV agreement, government subsidies, price controls and work permits,

- general political and economic problems:

In the words of the SWEDEC Managing Director:

*The economic and political side has a direct effect on the internal and external business, which also affects the MNC and its decision to stay in a market.*

- problems with financial infrastructure such as credit control, lack of electronic banking,
- difficulty of understanding market and relationship mechanisms,
- miscalculating the skills base in Iran;

In the words of the ASPC Deputy Managing Director:

*HR— we slipped up completely, we totally miscalculated the potential and reality of the Iranian workforce.*

And the SWEDEC Managing Director commented:

*With HR we have to come from zero to create policies. I didn't realise that it was going to be the biggest problem, but that is our weakest point.*

The impacts on IJVs were inevitably diverse and of varying gravity. The most important of these are reported below:

- Political and economic impacts.

Shell's HR and Finance Director commented:

*Biggest problem is political, mainly externally. All MNCs have US/UK business, affected by the Iranian Transaction Regulations (ITR).*

Castrol Iran's Managing Director commented:

*Politics is very important as that affects everything, but the economic environment is also important as that affects the buying power of people.*

- The legal impacts.

Henkel Pakvash's Managing Director remarked:

*The legal environment has the greatest impact. Politics will be reflected in the legal environment and regulations.*

- Social impacts.

Sasol's Deputy Managing Director commented:

*Social rules and understanding the Iranian national culture (cause misunderstandings).*

- Corruption and counterfeiting impacts.

The Managing Director of Behtotal commented:

*The biggest obstacle has been corruption and counterfeiting. If you say you are out of it (corruption), you close a lot of doors, a lot of opportunities are closed to you. Justice does not help us here, because the judge changes, the rule changes and so forth, so the justice is not very transparent. Counterfeiting is something you have to fight with, as long as you don't enter this field, there is no problem, you are on the safe side. But this is the red line, this is where Total will not go.*

It was clear that the lack of clarity on laws and the uncertainty in the political environment stood out as main impacts on the IJVs. This was similarly reported in research stage one findings as main challenges organisations and IJVs setting up in Iran faced.

Despite the constraints imposed by the legal, political and economic systems, the findings from this section suggest that MNCs will nevertheless absorb these risks if they sense that they can pursue a profitable opportunity unique to the host country. The Savola-Behshahr HR Manager remarked:

*At the end of the day, the MNC looks at how much money they can make, regardless of the political, economic instability.*

One of the comments from ASPC's Deputy Managing Director on each partners' contribution was as follows:

*Why did we Sasol get the project? If I had to say to you coldly and clinically, it would be that if it wasn't for the sanctions, Sasol would not have had this opportunity, because the Americans would have been here first, I can tell you now that we would have been behind the Chevrans and Dows of today, because they do the maths like we do the maths.*

He further added:

*The internationalisation and expansion model in companies is to go where business opportunities lie which is the number one priority, growing the business follows.*

The Behtotal French Managing Director pointed out:

*Iran is a good market to enter, with big potential, Total wanted to be the first in this market, there is no other market in the world without international competition like Iran. For Total it was a new market.*

### **National culture and management style in Iran**

This section addresses findings on the Iranian national culture, the differences seen in cultures working together in Iran and in the IJV relationships, the effect of nationality and country of origin of the expatriate and the MNC. The Iranian management style, the difference between private and public sector organisations and the role and development of HRM as perceived by respondents are also discussed in this section.

Below is a summary of the key points, in order of most frequently made responses made about Iranian national culture:

- Iranian culture is considered to be very polite and family oriented.

As the Scottish Managing Director of SWEDEC stated:

*Iranian national culture is one of the nicest, politest I've ever met, as long as Iranians are not in their motor car. You can drown going into a building because everybody wants to let you go first, but put them inside a piece of tin with four wheels and it's a disaster.*

- Similarity between the French and Iranian cultures.

The French IJV General Manager of SEI stated:

*Here even though it's a Moslem country, you are not Arabic, you are Persian and it makes a very big difference and it's much closer to our culture. The way of thinking or developing business or managing people—there are gender differences, but we have the same way of thinking and it's not so different.*

The French IJV General Manager of Behtotal remarked:

*It is not that far, the Iranian and French are quite similar in the fact they are proud, proud of their history, the feeling of being a nation, they need to be respected internationally.*

- Relationship oriented people.

The Shell HR and Finance Manager commented:

*In Iran, there is a very high burden of relationships, in terms of the expectations on managers, like "partybazy", hiring people that you know, rather than having objective assessments. There are also unwritten expectations of people that if they create the right relationships, they will progress quickly.*

- Lack of teamwork.

The Shell HR and Finance Manager remarked:

*And the other thing is the teamwork between Iranians at the same level was very limited. Part of it is jealousy and guarding your own patch, unwillingness to share information because its power and all those other things. The jealousy bit comes out of paternalism, everyone wants to be the popular son, and they thought the best way to do that was by pushing the other guys down.*

- Paternalistic management.

The Shell HR and Finance Manager added:

*(In the early days) Shell Iran was very much a traditional Iranian family business. If the Managing Director liked you, you did well, if he didn't, you didn't. You had this paternalistic relationship with the individual rather than a professional relationship with the company. That comes from this Iranian background that people search for a father figure, there is a very strong paternal tie. That is just the culture here, this is what we would call high maintenance.*

Respondents also made comments on how different national cultures related to each other in the IJVs. The French-Iranian IJVs all remarked that the French and Iranian national cultures are quite similar so they benefited from a good mutual understanding and business relationship, as commented below by the Iranian HR Manager at SEI:

*Because the French are very similar to our Iranian culture, it has not been very difficult. We have a very good understanding on human and personal issues.*

From comments received it appeared that the British, German and Saudi cultures found more cultural difficulties. The Managing Director of Henkel-Pakvash commented on the German-Iranian relationship:

*The Germans don't understand the pressure on Iranian staff. Iranians spend more time trying to solve problems, but the Germans are very direct and they don't see that, they do not have any understanding or sympathy for Iranian managers and staff, i.e. they do not understand the environment in which Iranians work.*

Shell's HR and Finance Manager commented that although cultural differences may arise between cultures, much of it comes down to the cross-cultural awareness of individuals:

*In terms of being Anglo-Dutch, the Dutch and British both have problems doing business here, but it comes down to the individuals. There obviously are people who can function here, there are also Dutch people who can be very blunt and difficult, same as British, so it comes down to the individuals.*

In the Saudi-Iran IJV one of the differences mentioned was with regards to the difference in religion, although Iranians and Saudis are Muslim, the faith is seen very differently between both groups, as commented by the Iranian HR Manager in Savola-Behshahr;

*The main difference that I have seen is that with Saudis religion is part of their being. In Iran this is a huge difference. In Saudi it is a part of life. Honesty and appreciation, it is part of their ethics and values and they use it in that sense. Early in the relationship, the expats realized Iranians are not bad Muslims. They just have a different way of understanding it. But the cultural difference is not because of the religion, there is a general bias about the Arabs.*



The Deputy Managing Director of ASPC found the Iranian national culture closer to the East but also believed the Middle East had a different style;

*At first I felt the Iranian national culture was closer to western but now since working here, I find it has parallels to the east but at the end of the day the Middle East is unique and has a management style all of its own. No, it's not very different to South Africa and there are some similarities and due to these, we can understand each other better. SA is also very diverse within SA, so South Africans have learnt how to deal with diversity. So it is not a problem.*

In contradiction, however, the HR and Finance Manager at Shell pointed out there were more similarities between Iranians and Europeans:

*So culturally because of the sort of Aryan thing (Iranian roots) there is a higher degree of synergy between the Iranians and Europeans/ westerners, there is a lot of things to support that. These are deep cultural similarities, and I think they do help, they help people understand where other people are coming from.*

Although there are cultural similarities between different countries and Iran, the main differences were seen in Iran's short-term orientation and collectivism. The Shell HR and Finance Manager remarked:

*There are nationalities that Iranians can and cannot get on with. You need people who can operate in that south European culture, where family matters where people's personal lives matters. If somebody's relation dies in the UK, the boss may hear about it because the person may need to take a day off, here the whole office would hear about it and would probably be at the funeral. It's a completely different way of behaving.*

He continued:

*Culture does affect things and if you can operate in that culture, it is very positive for a JV because you create that family atmosphere and trust and particularly in Iran where you have that "no trust" society outside the family, that is something that people value.*

The Castrol Iran Board Member suggested patience and the right attitude are needed to run an IJV:

*You have to have the right attitude to the environment, but you need huge patience to run a JV or be involved in one and you have to have a very strategic view of Iran, not get put off by things.*

At the same time, some respondents believed that the country of origin of the MNC was seen as a strength in the IJV.

*I think nationality and the country of origin of Shell, is important. My understanding of Iranians is that they prefer to do business with Europeans rather than Chinese and Japanese. You hear that quite often, that is important in creating trust and creating the alignment because basically if someone thinks you are from a country which is inferior, they are not going to give you the time of day to even start creating that trust. I know for the Arabic countries, Iranians would tend to think of them as inferior.*

(Shell's HR and Finance Manager)

As the Managing Director of Henkel-Pakvash stated:

*Country of origin is very important, having a German brand name is important and seen favourably in the Iranian market.*

The Deputy Managing Director of ASPC remarked;

*Nationality helps, South Africa is seen as a neutral country, sympathy with Iranians.*

The HR Manager of Savola-Behshahr added:

*Yes, absolutely, nationality and country of origin does have an effect. I think because of our heritage against Arabs, we have additional excuses not to get along with the Arabs. There is more respect for the Asian cultures than there is towards the Arabs.*

However, the Iranian Chairman of the Board at SWEDEC remarked that country of origin had no effect, the end product was most important:

*No it does not make any difference, only the end product and its quality is important.*

This section also takes into consideration that management style is impacted by national culture and is an extension of this topic. The most commonly heard findings on the management style of the IJV partners were, in order of importance:

- Lack of decision making.

The SWEDEC Managing Director stated:

*The Iranian managers don't always solve the problem, they don't make a decision on the problem, whereas the expats would take it to the result.*

The ASPC Deputy Managing Director commented:

*Iranians are scared to make decisions and scared of their ramifications.*

- Hierarchical, autocratic, command and control.

The Scottish Managing Director of SWEDEC stated:

*Here the hierarchy from Iranian to Iranian is really structured. I have been told off here, when I have been talking to the driver that I shouldn't do that. We have a totally different style, Iranians are very class conscious.*

The Iranian Chairman of the Board of SWEDEC remarked:

*The expatriate managers become friendly with staff, joke with them and this has a negative effect on the rest of the staff. You must not make differences or favorites with staff, you must treat them all equally. In Iran, if you joke around with your staff, they won't know what to do for the remaining eight hours at work. We are not work oriented and do not know the balance.*

The HR Manager at Savola-Behshahr commented:

*The willingness to develop people is not there, because it is dangerous to the existing people. As soon as you create an opportunity for employees to develop, they will realize the previous management before the JV have not been doing their job. The old managers are afraid of losing face and respect. They have gained respect by the number of years they have been there, not because of what they are offering.*

- Lack of teambuilding.

The Shell HR and Finance Manager remarked:

*In Iran there is no delegation, no teambuilding, there is a high burden of relationships, high expectations, a style unique to Iran, lots of networking.*

- Poor delegation (as commented on above),
- Work culture.

The bp Iran HR Manager commented:

*What we lack in Iran is a work culture. When people have a good performance, your colleagues accuse you, it is not seen as a good value.*

The Iranian Chairman of the Board at SWEDEC added:

*We (Iranians) don't have the culture to accept a person works for us to make money for the company, it still has not been accepted in the Iranian mentality. If I have a staff who works very well, I feel he is working well for the money he receives and that it is not needed for me to keep saying thank you and well done to him, he is doing the job he has been given. We don't have a work culture, instead the person working tries to make the employer feel he is doing him a favour.*

He continued:

*Iranian staff that return from training, always say these foreigners work 100 times more than us. We (Iranians) don't have a work ethic and motivation. You must want to be successful, our people don't feel that.*

- Lack of planning and short-term thinkers.

Remarks from the Castrol Iran Board Member were:

*Impatience. Impatience over money, impatience out driving the motor car, impatience on setting something up, last minute.com, everything is done at the last minute. Poor follow up, not very disciplined - that can send you demented. The need to check and counter check everything, I have a long list of things that I have to check and re-check.*

- Unwillingness to share information.

The Shell HR and Finance Manager remarked:

*Part of it (lack of teamwork) is jealousy and guarding your own patch, unwillingness to share information because it is power and all those other things.*

- Very good traders, strong negotiators.

The Managing Director of SWEDEC commented:

*Very polite, very good businessmen, negotiation skills are fantastic, it comes across sometimes as it's almost child like and you think sometimes they are, but they're not and it's a fantastic way of doing business. He is just as conscious of doing business as you are, but he just does it in Persian style. I personally think it's very good.*

- Different perception of time.

The ASPC Deputy Managing Director commented:

*There is a big difference in perception of time. In the Middle East they do not have the same understanding of time as in the West. We do not think that in the Middle East the guys understand the value of time and they are losing a huge opportunity.*

- Lack of accountability.

The Savola Behshahr HR Manager remarked:

*No ownership, no innovation, no passion, no commitment, no delegation, by delegation they (Iranian staff) think it means getting rid of your responsibilities. No decision making. Top management comes in with team, all connections, no competencies.*

- Engaged and committed in comparison to Arab countries.

The Castrol Iran Board Member stated:

*Iranians are certainly engaged in the business. Iranian managers are very hands on. The Iranian manager will sell the car and also want to hire the guy to run the business, which is not perfect by any means because it is not the way we do things. You need to delegate stuff and you need clear accountabilities.*

The comments reinforced the Iranian national cultural characteristics measured by Hofstede of high power distance (hierarchy), short-term orientation, uncertainty avoidance and collectivism. These characteristics are particularly noticeable in the work environment and have a strong impact on management style. Schoenberg et al. (1995) argued that management style was closely linked to power distance and uncertainty avoidance. They found that these dimensions determined the degree of centralisation, levels of decision-making and rigidity of organisational systems. The higher power distance characteristic of Iranian national culture involves an unequal balance of power between subordinate and superior, translating to a lack of decision making from subordinates, poor delegation, unwillingness to share information, autocratic style of management (command and control) and lack of team working. The short-term orientation of Iranians was also reflected in comments about lack of planning and managers being short term thinkers. These comments also supported the findings from research stage one on Iranian national culture factors

showing short-term orientation, family orientation, hierarchical nature, individualism and a combination of different identities (western, traditional and Islamic) and that management in Iran is more short term, lacks delegation, participation and sharing of information, team work, decision-making and trust.

### **The role and perception of HRM**

This section first highlights which partner has control of HRM in the IJV. It then continues to discuss the local partner's perception and role of HRM (as understood by the MNC partner).

In three IJVs, the MNC (Castrol Iran, Schneider Electric and Cameron) has control and decision making on HRM policies and practices. The local partner has no involvement in HRM. As the HR Manager of Castrol Iran commented:

*The local partner interestingly did not object and do not really interfere much. It has actually been an easier JV because of this. However, we find that it is more the senior managers who try to interfere and introduce people for positions in the company.*

The remaining IJVs see a direct involvement from their local partners on HRM issues: PASH, Behtotal, Henkel-Pakvash, Arya Sasol and Savola-Behshahr. Apart from Henkel-Pakvash, these IJVs are with the public sector.

MNCs have commented that their Iranian partners have a more controlling view of HRM and see it as a form of administration; the strategic aspect of HRM is not understood.

As the HR consultant at ASPC remarked:

*HRM in ASPC was set up as I would call what we used to do when I started work in SA, they (local partner) run a personnel department and an admin department, it is all about control in my opinion and administering the rules to pay people. In my opinion they do not necessarily understand the strategic part of HRM, they see HRM as part of admin and that is why they call it admin.*

In Savola-Behshahr, the HR Manager made the following comments:

*BIC believes HR is admin and personnel. They do not understand development. The Iranian partner does not understand the strategic nature of HRM.*

The Managing Director of Behtotal had the following opinion:

*There is not a common understanding of HRM. At board meetings we speak about two things; the number of people and salary. There is conflict of opinion on salary and manpower. The main problem on budget approval is on number of staff. We say we want so many and they say less is better. Our partners are not yet ready, they will not see the benefits of HRM.*

The view is that local partners do not have the same understanding regarding HRM as their foreign partners. HRM in Iran is seen more as a controlling and administrative function and one which does not understand the need for the development of people. People are not seen as an asset for the company, while there is talk that people are the wealth of the company, in practice the understanding does not exist in how to treat and develop that wealth.

#### **5.4 Research Findings on the Micro-environment**

The findings in this section are related to the factors which affect the micro environment and IJV. They include ownership and management control of the IJV, the control of critical resources, trust and selection of the Managing Director. Significant points that emerge relate to the control of the MNCs and whether the local partner is from the public or private sector.

Table 14 below shows the IJV's with a majority MNC ownership and management control. These are all partnered with a private sector local partner.

**Table 14: Majority MNC ownership structure and management control of IJVs**

	Name of IJV	Ownership Structure		Management Control
		Foreign	Iranian	
2	Castrol Iran	51%	49%	Castrol
4	SEI	67%	2 ptrnr 33%	Schneider Electric
5	HenkelPakvash	60%	40%	Henkel
6	SWEDEC	80%	20%	Cameron

Respondents noted some of the impacts of majority MNC ownership and management control. The Castrol Iran Board Member noted that majority ownership was a condition of bp entering the IJV:

*Castrol has management control that is the only way they would have done this. The local partners are more like investors and silent partners, with involvement in key financial decisions and investments in working capital & fixed assets. The only way bp would come in was on the back of the 51% majority ownership control.*

Table 15 below shows the IJVs with a minority MNC ownership and where management control in all these IJVs is on a rotational basis. These are all partnered with a public-sector local partner.

**Table 15: Minority MNC ownership structure and management control of IJVs**

	Name of IJV	Ownership Structure		Management Control
		Foreign	Iranian	
1	PASH	49%	51%	2 year rotational/ IR
3	BehTotal	49%	51%	5 years rotational/ Total
7	ASPC	50%	50%	2 year rotational / Sasol
8	Savola-Behshahr	49%	51%	3 year start up / Savola

Shell's HR and Finance Manager's comment revealed how staff were reluctant to stay in post during the period when management devolved to the local public sector partner.

*There is a 2 year rotation, recently Shell's term has ended and Pars Oil's term has just begun. This caused a lot of staff in key positions to leave the IJV as they saw it as a public sector company and not a MNC.*

Behtotal's Managing Director's comment reveals staff's fears about the change in management styles when the French MNC gives way to the local public sector partner.

*We wanted to have management control when we set up the JV, but in the end it came to rotation. We would have preferred to always have management control but Behran did not accept. The staff are worried that someone will be dropped here with no experience and his friends and they will change everything.*



ASPC's Deputy Managing Director's brief remark also indicated concerns about the rotational system.

*Yes, two years (rotation period). At present (the term is) with a Sasol appointed MD. But trying to change this to make it longer.*

The author concluded from the comments received that the rotational management pattern, designed to be a mutually acceptable compromise, was clearly a source of concern. A two-year period was seen as too short a time for effective structure and policies to be implemented. On the other hand a longer period, five years in the case of Behtotal, raises other difficulties in that the management style is established and accepted and so causes staff to fear the uncertainty implicit in the changeover. Notwithstanding, for the local partner, the rotational system offers an opportunity to experience an international dimension of management and have access to the know-how and expertise of the MNC.

Management style of the local partners was perceived as a source of concern. In the IJVs which partnered with the private sector (Castrol Iran, SEI, Henkel-Pakvash and SWEDEC), all the MNCs held management control. The local partners in most cases were silent partners. The Castrol Iran Board Member comments about the management style of the local partners:

*Very much a family business, father is the most senior person in the job, everything needs his go ahead, therefore even if the sons approve something, it usually has to finally go back to get final approval from the father.*

On the other hand, the IJVs partnered with the public sector saw more control and bureaucracy in their partners' management style, which in turn led to more concern.

*The Board is not taking right strategic decisions. NPC (the local partner) is driving the detail, it is a style but we have to get used to it. Our selected board of directors and theirs are a complete mismatch. They should be sorting out marketing strategy, direction of co, HR strategy but we end up in details. The Iranian style of management is very different, our partner is public sector, we have differences of opinion, we do the same things just very differently - we do it quicker.*

The Savola-Behshar HR Manager added:

*If the local partner was a private company, everything would be easier. People adapt much faster. The adjustment is much easier.*

## Trust

Trust between partners was also a very important factor in the success of the IJV. Table 16 below shows that the level of trust between the MNC and local partner was high with local partners from the private sector and where the MNC had ownership and control of the IJV. Of these IJVs (Castrol Iran, SEI and SWEDEC) had previous experience of working with their local partners. This appears to point to the importance of a long-term relationship in fostering trust. However, Henkel-Pakvash is the exception here, as an IJV formed from a newly established relationship, suggesting that the time element in trust building may not be crucial and that other factors may also assist in building trust.

**Table 16: Cross tabulation of trust, majority ownership and MNC management control**

	Name of IJV	Majority ownership	Management Control	Degree of trust
		Foreign		
2	Castrol Iran	51%	Castrol/ Iranian	HIGH
4	SEI	67%	Schneider Electric/ Expatriate	HIGH
5	HenkelPakvash	60%	Henkel/ Iranian	HIGH
6	SWEDEC	80%	Cameron/ Expatriate	HIGH

The comment by the Country Manager of Castrol recognises the need to accept occasional conflicts of interest in the partnership, without these affecting mutual trust on specific issues:

*Trust is very important in the JV. We have a very good level of trust between the partners. You need to be realistic and accept that the interests of the Moussavis (local partner) and BP are not converging all the time. Abbas (first name of local partner) has an angle and so have we. But when we do something together that we commit to, there is very good trust.*

In the SEI's General Manager's comment, a long-term relationship and that the local partner maintained its own individuality as a separate company was seen as a contributory factor to trust:

*Both parties have a trust relationship, had been working previously before for many years. They trust us, they have their own business. They are happy to get some dividends at the end of the year.*

The comment from the Managing Director of Henkel-Pakvash indicates that a partnership must not just pay lip service to trust but give managers real responsibility:

*Trust is very important. Henkel put great trust into me as the Managing Director and left all decisions in Iran to me.*

This is reinforced by the comment of the Iranian Chairman of the Board in SWEDEC:

*Trust is very important in the JV. Even before the JV was formed, Cameron sent me money to buy land to start building the JV and we had worked for many years together before.*

The situation differed in the IJVs with the public-sector partners, where trust levels were moderate or low (Table 17). It is noteworthy that the two IJVs with moderate levels of trust had previous experience of their partners.

**Table 17: Cross tabulation of trust, ownership and local partner management control**

	Name of IJV	Majority ownership	Management Control	Degree of trust
		Iranian		
1	PASH	51%	2 year rotational/ Pars Oil/ Iranian	MODERATE
3	BehTotal	51%	5 years rotational/ Total/ Expatriate	MODERATE
7	ASPC	50%	2 year rotational / Sasol/ Expatriate	LOW
8	Savola-Behshahr	51%	3 year start up / Savola / Expatriate	LOW

The comment from the HR and Finance Manager at Shell showed that when too much power resides in one paternalistic figure, the departure of that person can create a crisis of trust:

*Going through the difficult periods, with the change overs and the new Iranian Managing Director taking over, there certainly were issues of trust. It has been such a hands off JV, that the Managing Director has much more say.*

The comment by the Deputy Managing Director of ASPC shows that building trust cannot even begin if the partnership is bedevilled by mutual suspicion. It would appear that

neither partner had initial conviction to bring to this IJV, and the author can only conclude that this total lack of trust will result in the failure of the IJV:

*Sasol/ NPC, neither partner has trust, both partners need to trust each other. NPC wonders why Sasol is here and is suspicious towards Sasol.*

The point raised by the HR Manager of Savola Behshahr stresses the importance of taking time to get to know the other partner. Once familiarity is established, mutual respect can follow even if on a personal level there may be antipathy:

*That is one of the things that happens in the engagement period, when you get to know them better, you also end up trusting them. There is a need for better dialogue before you commit to anything. For any successful JV you need a longer period of studying and engaging rather than committing. If the local partner was a private company, everything would be easier. But perhaps they don't like each other but they don't distrust each other, one is a rabbit and one a turtle, one wants performance and achievement and the other wants to take their sweet time. They have the same objectives, but they have different speeds.*

A further impact of ownership patterns was that managers found there was a difference between the public and private sector. As is borne out by the sections above on management control and trust, although both sectors had the same management style and national culture, the private sector seemed more engaged and responsive, whereas the public sector was more bureaucratic and controlling. One of the comments on the differences was made by the Country Manager of Castrol Iran:

*It seems in the public sector no one does anything. Private sector you see the engagement which gives me great hope for the future, but (the public sector), people have a responsibility and they operate within that and then of course they bounce off another department. The trouble is there is very little motivation to actually do anything. Why should I bother, I don't get paid that well and actually what's in it for me?*

The Deputy Managing Director in ASPC commented:

*The Iranian style of management is very different, our partner is public sector, probably the private sector would be more similar to SA and more western in style and approach - with our Iranian partners, we have differences of opinion, we do the same things just very differently - we do it quicker.*

### **Control of critical resources**

The literature that suggests the decision to standardise or localise HR policies and practices is significantly determined by the control of critical resources (Yan and Gray, 1994) and the percentage of foreign ownership in the IJV (Hanon et al, 1995). Although the literature defines control of critical resources as equity ownership (percentage of foreign ownership) and non-financial resources (including technology transfer, skills, knowledge, strategic material and know-how) (Geringer and Hebert, 1989; Harrigan, 1985; Kogut and Singh, 1988; Yan and Gray, 1994), respondents defined critical resources broadly to include human, financial, physical and intellectual resources. Human resources encompass both staff and the qualities of those staff: skills, competencies and personal attributes. Thus, the qualities of partners; money and recruiting the right people figured among the most important critical resources mentioned by respondents. As the HR and Finance Manager at Shell pointed out:

*Money is one of the most critical resources in Iran and control of that, because it is a cash economy, is in much more detail than in a more advanced economy where everything is electronic. I think hiring is critical. So for me, money and people are for me the critical factors.*

### **Selection of the Managing Director**

The influence of the managing director on the IJV is self evidently of major importance. The findings for this section help throw light on the qualities respondents valued in an effective managing director. For the HR and Finance Manager of Shell, it was personality and age that counted:

*Yes, my personal view is for people to operate here they need to be extroverts, outward going, charismatic and old.*

The Managing Director of Behtotal commented on the importance and role of an expatriate managing director heading the IJV:

*I bring the entire atmosphere of the company and the open and direct style and that is what my staff are looking for and all the connections with the Total group. With expats the management style is more direct, it is managing with a smile, we are open to discussion. We try to create a team atmosphere that staff are happy to come to work in the morning. The first thing is not to control, the Iranian manager's first reaction is to keep the control. For me, the first thing is to trust.*

The Board Member of Castrol Iran saw the importance of finding a managing director with the right qualities to handle the complex situations of an IJV in Iran.

*I think good selection of the MD is critical. It is very difficult to get the right person into the slot.*

The Board Member of Castrol Iran added:

*You need to send in a measured and mature person to sort things out. I actually do think that whatever nationality goes in they have to be prepared to do deals that offer the opportunity for mutual interest and mutual respect.*

The Managing Director of Behtotal stressed that personal qualities might be more important than any other if the incumbent is to survive and remain positive. He also highlighted the need for linguistic and cross-cultural communication skills:

*Yes, it is important to be a positive and optimistic person otherwise very rapidly you get depressed. Another success factor is to be close to the culture and also the fact that I speak a few words of Farsi is good, it is important to remain with your personality but also integrate into the local culture more. In this country, it is a must to understand the language, especially to avoid a lot of misunderstanding because the level of English is not high, sometimes the level of communication is not high and then it creates a lot of misunderstanding.*

The Deputy Managing Director of ASPC strongly voiced his opinion on the importance of the selection of an effective Managing Director;

*Yes very great impact, as we saw with the last Iranian Managing Director who was catastrophic!*

The HR Manager of Savola-Behshahr stressed the importance of leadership skills in this selection.

*Yes, it is important, the current Managing Director is unable to lead 60% because this is a new environment, where nobody wants to work, and 40% is his inability to lead.*

The HR Manager of SEI stressed the relationship between HRM and the Managing Director;

*The Managing Director's role is very important, if he does not believe in HRM, then it is very probable that there will be no HRM.*

The selection of the Managing Director may also be of greater importance in the Iranian context due to national culture dimensions of power distance. The Managing Director in the Iranian national culture is seen as a paternalistic figure and looked upon for guidance from staff. This factor may be seen differently in lower power distance cultures, where more emphasis is on systems and structures and less on individuals. At the same time, the comment by the HR Manager of SEI stressed the important role of the Managing Director on the application and implementation of HR policies and practices.

The penultimate question in the interview asked which among these factors was considered most important to the success of the IJV. Responses were: partnering with the right partner, establishing and maintaining trust, management control, building relationships and getting your information right before entering the market.

With regards to the different factors and which were seen as most important to the IJV, the following responses by order of importance were:

- Getting the partner right.

The Scottish MD in Cameron said:

*First of all you need the right partner, that is absolutely paramount, if you can't trust your partner and you think he is stealing S\$100 from you, don't go there. Pick your partner, investigate your product.*

The Managing Director of Behtotal remarked;

*In a partnership choosing the right partner seems to be quite important. Being foreign, being strong and important in size is important for us. Choosing the right partner and the strength of the MNC are the two most important factors. I think it is what you bring, it can be technology, know how, experience, but it must be something very different so they can enjoy the partnership.*

- Having trust

As the HR and Finance Manager of Shell pointed out:

*I think it is trust and it comes down to public and private space. There is very little public space in Iran so creating that space where people are willing to share which ultimately means creating the relationships, it means sitting across the lunch table in the canteen, it is those things that need to be created, and I think that is critical particularly between the partners, I don't think formal meetings are that productive. But the informal relationships are more important.*

The Deputy Managing Director of ASPC commented:

*They are all necessary, I don't think you can go without involving all of these factors. I don't want to use the word relationship, but that is where you are getting the trust. I think trust is the most important. If we have trust, you solves all the other issues, like the management control, ownership, partner selection, public and private partner.*

- Having management control.

The Country Manager of bp Iran commented:

*The two most important factors are management control and partnering with the private sector. These are the factors which have affected us most in the IJV.*

- Taking the macro-environmental factors into account.

The Iranian Chairman of the Board of Cameron stated:

*The macro-environment I cannot influence, I can influence the management, I can influence and create the system, but I cannot do anything with the political and economic situation. So most important is the macro-environment, the other factors can be influenced.*

- Macro-environmental factors would sort themselves out, they were not important in the long run.

The Board Member of Castrol Iran stated:



*The macro-environment is mainly politics; it won't put us off our stride. The management style you just have to work on. The culture of the country, quite a bit of last minute.com is Iranian and will endure. Progressing is more management practice and is something you can fix.*

- Strength of the MNC was seen as an important factor.

Most managers did not mention the-macro environment as the most important factor to affect the IJV. However, when the respondents were challenged to think of the worst case scenario in the Iranian IJV, they commented that the US sanctions had an effect on their presence in Iran and they also mentioned corruption and counterfeiting. The Board Member of Castrol Iran saw the main threat of pulling out of the Iranian market coming from US sanctions and pressure by the US shareholders:

*If there were sanctions, we would have to consider it. You have to have sanctions that work. It would be very unlikely for us to pull out for any other reason other than sanctions because although the economy is not good right now, the fundamentals are so good.*

However, the Managing Director of Behtotal found the issues of governance more important in the decision to continue operations in Iran;

*Corruption, transparency and counterfeiting are main problems. Politically we don't care about, it has no direct impact, even if it does on the raw materials or pricing, up to now we are too small to suffer from this. Our market is so huge there is still room.*

The Deputy Managing Director of ASPC commented that they do regular risk analyses for being in different markets. Based on that evaluation, they determine whether to stay or not:

*We do a risk analysis when we enter any market and we will categorise it against profitability and consequence. But we look at every facet, political, sanctions, every possibility that could be a risk to us. And we review this process every six months.*

## 5.5 Research Findings on the Degree of Influence of the Environment on Transferability of HRM

The consensus was that a polycentric approach to HRM was desirable. It was however, more difficult to implement than MNCs had expected and most felt happier falling back on the standard practices with which they were familiar. Table 18 below indicates the degree of localisation or standardisation of HR policies and practices in the sample IJVs (for full table with comments, refer to Appendix VII). The figures here are averages for the IJVs' HR policies and HR practices. Table 19 shows the degree of localisation and standardisation of each function individually. IJVs are listed in the order of private sector-MNC IJVs and public sector-MNC IJVs in order to see if there is any difference in HR transfer between these two groups.

**Table 18: Degree of standardisation or localisation in HR policies and practices**

Name of IJV	Degree of standardisation or localisation of HR policies and practices in the IJV (based on five-point Likert scale)
PASH	Combination local/ standard (3)
Castrol	More standard (2)
Behtotal	More standard (2)
SEI	More standard (2.5)
Henkel-Pakvash	Completely local (5)
SWEDEC	More standard (2.5)
ASPC	More standard (2)
Savola-Behshahr	Completely local (5)

No trends are seen between the overall HR policies and practices in these IJVs and their date of establishment, ownership structure, size of MNCs or level of internationalisation of MNC.

**Table 19: Standardisation or localisation of HR policies and practices in the IJVs**

	Overall average	General Policies	Recruitment & Selection	Training & Development	Remuneration	Performance appraisal
2	Castrol (2)	3	2	3	2	1
4	SEI (2.5)	3	4	2	2/3	1
5	Henkel-Pakvash (5)	5	5	5	5	5
6	SWEDEC (2.5)	3	3	2	3	2
1	PASH (3)	2	4	4	2/3	3
3	Behtotal (2)	2	2	1/2	3	Not done
7	Arya Sasol (2)	3	1	2	5	2
8	Savola-Behshahr (5)	5	5	5	5	Not done

No trends are apparent from the data; it is not possible to say recruitment and selection is more local or performance appraisal more standard. This supports the literature, which argues that each HRM practice must be studied individually: across geographical settings, MNC home countries, different industries and ownership structures (Lu and Bjorkman, 1997; Myloni et al., 2004; Schuler et al., 1993; Taylor et al., 1996). However, a review of research that differentiated among HRM practices shows that there are large contradictions as to which practices are more easily transferred and which are not (EIRR, 2000; Lu and Bjorkman, 1997; Weber et. al. 1998). The research findings in this section supported this literature.

This final section of the findings is concerned with how respondents related the overall macro and micro-environments and the role of the MNC in the implementation of HR policies and practices. It also reports on how they assigned importance of individual factors to such implementation. The findings allow us to rank the importance of overall environments and individual factors to the transferability of HR policies and practices in Iranian IJVs.

Only respondents who ranked the factors are taken into consideration here. Henkel-Pakvash did not give any ranking for the overall environment but did for the individual factors and Behtotal and Cameron only ranked the overall environment but not the individual factors. Tables 20 and 21 below reports the ranking for the three overall environments and individual factors within them.

**Table 20: Analysis of the degree of influence of overall environment on the transferability of HRM**

Name of IJV	1 Most	2	3 Least
PASH	Micro	MNC	Macro
Castrol Iran	MNC	Micro	Macro
Behtotal	Micro	MNC	Macro
SEI	MNC	Micro	Macro
HenkelPakvash	All important		
SWEDEC	MNC	Macro	Micro
Arya Sasol	Micro/ MNC		Macro
Savola-Behshahr	Micro	MNC	Macro

The findings show that in terms of the overall environments, respondents found the micro-environment and the role of the MNC to be equally important and have the most influence in the transferability of HRM. This was followed by the macro-environment, which was seen to have a lesser degree of influence in the transferability of HRM.

**Table 21: Individual factors within the three environments**

Macro environment in the country:	The role and MNC policies:	The micro environment of the IJV:
1 Political situation	1 The general decision towards HRM in HQ	1 Ownership structure of the IJV
2 Economic situation	2 The experience of forming IJVs in other countries	2 Public or private local partner
3 Social	3 The size of the MNC	3 Trust
4 National culture differences	4 The geographic presence in region	4 Control of critical resources
5 Legal	5 The MNC's approach to globalisation	5 Organisational culture
6 Technological		6 Perception of partners towards each other
7 The instability of the environment		7 Size of partner companies
8 The management style of the local partner/ host country		8 Selection of partner companies
9 The development of HR (lack or progress) in the host country		9 Locality of JV
		10 Selection of Managing Director

**Table 22: Individual factors within three environments ranked by most important to least influence on HR transferability**

Macro environment factors:	Role of MNC:	Micro environment factors:
1 National culture differences	1 General decision towards HRM	1 Selection (and personality) of the MD
2 Legal	2 Size of the MNC	2 Ownership structure of the IJV
3 Development of HR in host country	3 Experience of forming IJVs	3 Issue of trust
4 Management style of local partner/ host country	4 Geographic spread of MNC	4 Control of critical resources
5 Economic	5 MNCs approach towards globalisation	5 Private of public local partner
6 Political		6 Selection of partner companies
7 Social and instability of market		7 Locality of IJV
8 Technological		8 Organisational culture
		9 perception of partners towards each other
		10 Size of partner companies

Table 22 shows the ranking of individual factors within the three environments based on their influence on HR transferability. These are ranked by order of importance, 1 being the most important factor as identified by respondents. In terms of individual factors in the micro environment, the most important factor in the transferability of HR policies and practices in the IJV was the selection of the Managing Director. This signifies the importance the role of the Managing Director plays in a high power distance, relationship oriented and paternalistic country like Iran, where it seems the word and action of the Managing Director has more impact than an HRM department from either the MNC or local partner's side. This is also supported by the quote from the HR Manager at SEI:

*The Managing Director's role is very important, if he does not believe in HRM, then it is very probable that there will be no HRM.*

Respondents also believed that having a majority ownership structure affects the transferability of HR policies and practices to the IJV. As the research findings showed, the partner who controlled ownership and management control also had control of HRM. This was stronger in IJVs who had partnered with the private sector and who had no involvement from their local partners.

Trust was seen as the third most important factor followed by control of critical resources. This was followed by the public or private local partner and then selection of the partner companies. Locality of the IJV, perception of partner companies towards each other and the organisational culture were seen to have low influence on HR policy and practice transfer. The size of the partner companies had the least influence on the transferability of HR policies and practices.

Respondents found that the general MNC decision on HRM had the highest influence on HRM transferability, followed by the size of the MNC, the experience of forming other JV in countries, the geographic spread of the MNC and its presence in the region. Finally, the approach to globalisation had the least influence in HRM transferability.

The macro-environment ranked lowest in overall environmental influence; whereas the national culture differences had the most influence in the transferability of HR policies

and practices, followed by the legal framework, which is strongly linked to the local Iranian labour law; then came the development of HRM in the local country, which was seen as significant in the transferability of HRM. This was then followed by the management style of local partner, economic, political, social and technological were seen to have the least influence on transferability of HRM.

The final ranking combining all three environments was:

1. Selection of the Managing Director
2. Ownership structure of the IJV
3. The general decision towards HRM in HQ
4. The size of the MNC / National culture differences
5. Trust
6. Control of critical resources
7. Public or private local partner / Legal framework
8. Development of HR in host country
9. Selection of partner companies / Experience of forming IJVs in other countries
10. Locality of the IJV
11. Management style of host country / MNC's geographic presence in region / Organisational culture
12. Partners' perception of each other
13. Approach towards globalisation
14. Economic
15. Size of partner companies
16. Political situation
17. Instability of environment
18. Technological factors.

This ranking shows the interplay between overall environments and individual factors on the transferability of HR policies and practices. It is not possible to examine one environment without the others. The findings thus ranked show the significance of different factors within each environment and their effect on the transferability of HR policies and practices to IJVs in Iran.

## **5.6 Conclusion**

The findings from this stage of the research lead the author to conclude that MNCs setting up IJVs in transitional countries such as Iran are likely to find that their preferred HR policies of being polycentric or standard will be modified in the light of the influences listed above. The rank order of those influences is likely to differ from country to country and may not necessarily coincide with those for Iran. However, the findings help to identify the key factors an MNC should take into consideration when planning HRM operations in IJVs in developing or transitional countries.

## **CHAPTER 6: ANALYSIS AND CONCLUSIONS**



## **6.0 Introduction**

This chapter discusses conclusions that can be drawn from the research. First the hypotheses are discussed in light of the findings and their analysis. Then the model for the effect of the environment on the transferability of HR policies and practices is examined to see if it is possible to identify a global model that can be applied to other developing countries or emerging markets in their IJV relationships.

### **6.1 Hypotheses**

The hypotheses formulated in Chapter 2 are examined in light of the research findings.

**H1) The more unstable the macro-environment of the host country (politically, economic, governance, legally) the higher the tendency of the MNC to localise its HR policies and practices to the IJV.**

This hypothesis concerned those factors in the macro-environment, which could make the host country potentially difficult for an MNC from a more stable home country to transfer its standard HR policies and practices. All respondents found Iran had a difficult and complex macro-environment. The research showed those factors which most affected IJVs in Iran were: the lack of clarity on laws and regulations, bureaucracy, government subsidies and price controls. In addition, problems with the economic and political structure, financial infrastructure and corruption and counterfeiting impacted on IJVs operating in Iran.

The impact of the macro-environment is seen in two distinct ways. Firstly, despite the difficulties experienced in operating an IJV under such circumstances, MNCs are prepared to cope with these. As one of the respondents remarked, their MNC did a political risk

analysis every six months in order to evaluate the Iranian market. Corruption, governance, counterfeiting and the effect of US sanctions concern MNCs, but the overall gain of being in a profitable market, outweighs these concerns.

The macro-environment is more significant when an MNC is planning to establish an IJV in a new country, but once the MNC is in the host country, the factors which shape the macro-environment have to be accepted.

Secondly, the macro-environment has some effect on the transferability of HR policies and practices. The legal framework in the host country makes it necessary to localise some aspects of HR policies and practices. However, the political and economic environments had little effect. Among the overall factors that make up the macro-environment, the legal environment was seen as an important factor (ranked seven) but not a priority compared with others.

It is fair to conclude from this research, that an unstable macro-environment does not deter MNCs from entering a developing country and does not rate highly as a significant factor in the transferability of HR policies and practices, although legal constraints mean that some localisation is necessary.

**H2) The more diverse the national culture in the host country, the more complex the management of the IJV will be and this will cause the MNC to have a higher tendency to adopt local HR policies and practices in the IJV.**

Iranian national culture influences managers to be family oriented, relationship- oriented, lacking in team spirit and with a paternalistic attitude to staff. Iranian management style as perceived by others is characterised as lacking decision-making, very hierarchical, not team-oriented, unable to delegate, lacking in planning, short-term in its vision, family-oriented and unwilling to share information. The factors emphasised by participants in this study were the relationship orientation and paternalism of Iranian managers.

Respondents in the French-Iranian IJVs remarked that French and Iranian national cultures are quite similar, so these IJVs benefited from a good mutual understanding and business relationship between the local and foreign staff.

It appeared that the German, British and Saudi national cultures had less cultural rapport with the Iranians. In the Saudi-Iranian IJV, one of the differences mentioned was religion, with the Muslim faith being seen very differently in each group. The Germans were perceived as unsympathetic to Iranians. The French and British appeared to have a closer understanding of each other's national cultures. If these cross-cultural relationships are ranked from most strained to most comfortable in respect of the home- country of the MNC and Iran, the following order emerges: German, Saudi Arabian, South African, British and French.

Concerning the transferability of HR policies and practices it was seen that Henkel-Pakvash (German) is completely localised, Savola-Behshahr (Saudi Arabian) is completely localised (5), ASPC is more standardised at present (2), Castrol Iran (2) and SWEDEC (2.5) are more standardised, PASH is slightly more localised (3), Schneider Electric (2.5) and Behtotal (2) are more standardised.

The IJVs that observed greater disparity between national cultures are also the ones that have completely localised HRM policies and practices (Henkel-Pakvash and Savola-Behshahr). However, ASPC which has a moderately comfortable cross-cultural relationship, is more standardised. The British-Iranian IJVs (Castrol and SWEDEC) are more standardised as are the French. PASH, the Anglo Dutch-Iranian IJV, has a combination of local and standard.

The research showed national culture to be the most important influence in the macro-environment. In the overall environment ranking it also held a significant position, directly affecting the management of the IJV. It appears that IJVs with more diverse national cultural differences have more localised HR policies and practices, while those IJVs with less disparity between partners' national cultures have more standardised HR policies and practices. These findings support the hypothesis.

However, the comments received also revealed that where expatriate managers have a higher level of international experience and greater cross-cultural awareness, the cultural influences are diluted. Another factor to take into account is the strategy of the MNC. In the case of Henkel-Pakvash, the reason for localising HR policies and practices is the MNCs strategy for managing an IJV.

The author believes that this research and sample size may be too limited to show a direct relationship between national culture and transferability, as these factors may not work in isolation. However, it is safe to conclude that national culture and local management style are significant influences on the transferability of HR policies and practices and MNCs planning to set up IJVs would be advised to learn as much as possible about the national culture of the host country and, where possible, to appoint expatriate managers with sound international experience and cross-cultural awareness.

**H3) The level of development of HRM between partners will influence standardisation or localisation. If the difference between them is large and the host country has a different view of HRM it is expected that the MNC will transfer standard HR policies and practices. If the difference in HRM is small between MNC and host country, then the MNC will localise and adopt local practice where it fits better.**

This hypothesis relates to the local partner's level of development of HRM, assuming that the MNC would have a more advanced model and that the local partner would be in a developmental or transitional phase of HRM. However, the research showed that many MNCs are themselves also at different stages of their growth, internationalisation and globalisation, which in turn affected their level of HRM development.

Five MNCs experienced direct involvement from their local partners on HRM issues: PASH, Behtotal, Henkel-Pakvash, ASPC and Savola-Behshahr. These MNCs all commented that their Iranian partners had a more controlling view of HRM and saw HRM

more as administration. The strategic role of HRM was not appreciated. Local partners did not, therefore, have the same understanding of HRM as their foreign partners. The Iranian local partners in these IJVs, all are public-sector companies except Pakvash, which is a private sector company.

With the MNCs, although HRM may have been viewed strategically, in practice only a few applied this strategy throughout their organisations from head office to subsidiaries; these were Shell, bp, Total and Schneider Electric. The remaining four MNCs talked about HRM being strategic but this did not appear to filter through to the IJV: Henkel, Cameron, Sasol and Savola. As discussed in Chapter 5, there are different reasons for this: the stage of internationalisation of the MNC (Sasol and Savola), the size of the MNC, the business strategy and model, the investment, market size.

Despite a claimed preference for polycentrism, most MNCs seemed reluctant to localise their HR policies and practices as they were more used to their standard tried and tested systems. It would be simplistic to assume that HRM is implemented in the same way in all MNCs and that all MNCs are at the same level of HRM development. MNCs may treat IJVs differently from wholly-owned subsidiaries; the size, age and type of industry also all have an influence.

Shell, bp, Total and Schneider Electric have a more strategic approach to HRM. The local partner influences HR decisions in only two of these IJVs: PASH and Behtotal, where the local partners are both with the public sector and both have a more traditional and personnel- management approach to HRM. In these IJVs, the application of HR policies and practices is as follows: Behtotal is more standardised and PASH is more localised. The other two IJVs in which the local partner influences HR decisions are ASPC and Savola-Behshahr. These are MNCs (Sasol and Savola) who talk about HRM being strategic, but in practice do not apply this in their IJVs. In ASPC the overall HR policies and practices are more standardised and in Savola-Behshahr they are completely localised.

The level of development of HRM in the host country was thought to be one of the most important macro-environmental factors affecting HR transferability (ranked third in macro environment factors and eighth in overall ranking of environments). However, the relationship between the level of HRM development of the local partner as an influence on HR transfer was not seen in the studied IJVs. The author believes this hypothesis warrants further research. There seem to be other factors which take precedence in HR transferability and the level of development of HRM does not seem to have a direct influence on the final HR transfer outcome. Future research should examine not only the development of HRM in the host country but also the stage of HRM development of the MNC. These additional areas can then be examined for their impact on the transferability of HR policies and practices to the IJV.

**H4) In general, the MNC will adopt different HR policies and practices to fit in with the cultural and institutional frameworks in the host country (a polycentric strategy).**

As we know, all MNCs (except Henkel-Pakvash) stated that they adopted a polycentric approach. The MNC provided the HRM model, templates, global policies and practices, but each IJV had the freedom to decide how to adapt these to national culture and the legal framework, in particular the Iranian labour law. This finding supported the literature that stated that MNCs adopt a polycentric strategy in IJVs and that IJVs combine standardisation with local responsiveness. Henkel appeared to have a different strategy with IJVs, leaving it to the local partner. Henkel did not provide any templates but agreed with the local partner on the most important aspect of HRM, which was hiring key personnel. Two other MNCs (Shell and Total) maintained that the IJV was left alone, it was seen as a separate entity and the MNC did not interfere in HRM decisions; however, where assistance was required the MNC partner was willing to support the IJV with HR policies, practices, training, and remuneration guidance. Furthermore, each IJV adopted different strategies towards HR

practices. For example in Castrol Iran although the overall ranking of the HR policies and practices is more standard, the general policies are a combination of local and standard (3), recruitment and selection is more standard (2), training and development is a combination of local and standard (3), remuneration is more standard (2) and performance appraisal is completely standard (1).

In addition, all IJVs conformed to the local Iranian labour law and the influence of the legal system ranked second among the macro-environmental factors, and seven for the overall environment. The research findings thus support this hypothesis. However, the author believes more research can be done on polycentrism and the degree to which this is seen in MNCs and IJVs. There appears to be a difference in the level of polycentrism and factors that affect a polycentric approach in IJVs compared with MNCs. There also seems to be some reluctance on the part of the MNC to become more local, even though MNCs all stated they preferred a polycentric approach.

**H5) The MNC's international experience (age, size and international experience) will cause the MNC to be more adaptive to the local environment (polycentric).**

As an MNC becomes international, there seems to be a need to adapt to the local environment in HR policies and especially practices; one of the first needs being adapting to the local legal environment. However, it would be difficult to say if MNCs become more polycentric with the more countries they operate in or the older they become. The research does support the fact that the more countries the MNC operates in, the more tried and tested its internationalisation HRM policy becomes, as the quote by the Sasol HR Consultant shows;

*Probably in time to come, when Sasol go into China and India, you will have to start to learn so you do not go on doing things the same way, because you are frustrating the people who you are working with.*

Furthermore, the research findings confirmed that the MNC's decision (or viewpoint) about HRM from HQ and the size of the MNC were important factors (ranked 3 and 4) in the influence on HR transferability. The research findings do not show the more countries a MNC operates in, and the larger the MNC size, that it becomes more adaptive to the local environment.

Table 23 below shows the size, age, international experience of the MNC and the HRM policy in the IJV.

**Table 23: Size, age, international experience of MNCs and their HRM policy in the IJV**

	Date of establishment	Operating in countries	No of employees	Overall HR Policies and Practices	Approach in IJV
PASH	1964	140	112,000	Combination S/L	More distant with IJV
Castrol Iran	1901	100	100,000	More Standard	Polycentric
Behtotal	1920	130	95,000	More Standard	More distant with IJV
SEI	1838	130	88,670	More Standard	Polycentric
Henkel-Pakvash	1964	125	70,000	Completely Local	Completely localised
SWEDEC	1908	50		More Standard	Polycentric
ASPC	1927	10-15	30,000	More Standard	Polycentric
Savola- Behshahr	1979	5-6	15,000	Completely Local	Polycentric

Although all the IJVs noted they used a polycentric approach (except Henkel-Pakvash), Shell and Total took a hands-off approach towards their IJV, saying it was different from a subsidiary and therefore was treated as an individual and separate entity. Polycentrism, therefore, may apply differently to IJVs. Indeed, although Henkel is quite internationally recognised, it applies a completely localised and hands-off HRM model in the Iranian IJV.

Although there appears to be a positive correlation between the MNC's presence in different countries and local responsiveness, the author believes this hypothesis needs further research, in order to better understand the other variable factors in the equation.



**H6) The partner with the higher control, in terms of ownership control, control of critical resources or management control of the IJV will control the decision of HRM transfer.**

In the four IJVs with a foreign majority ownership (Castrol Iran, SEI, Henkel-Pakvash and SWEDEC) all have management control of the IJV. HRM in the IJV is managed by the MNC partner in three of these IJVs: Castrol Iran, SEI and SWEDEC. In turn, these IJVs have more standardised HR policies and practices. However, Henkel Pakvash has only a minimal control on HRM decisions by choice. HRM in this IJV was completely localised and this is how they preferred HRM decisions to be.

In the four IJVs where the foreign partner is the minority partner, a rotational management structure is seen and HRM is managed by the partner with the current management nomination (PASH, Behtotal, ASPC and Savola-Behshahr). However, variation is seen in the transferability of their HR policies and practices. PASH is a combination of local and standard, Behtotal and ASPC is more standard and Savola-Behshahr is completely localised. It is thus apparent that the current management control is a critical factor in HRM transferability. Ownership control of the IJV was ranked as one of the most important factors to influence the transfer of HRM decisions (position two in the overall ranking).

In response to this hypothesis, ownership control, control of critical resources and management control of the IJV have been identified as important factors in HRM transfer. Ownership control on its own, however, cannot influence HRM transfer; indeed current management control, especially in rotational management IJVs is an important factor. Current management control should be identified as a key influence in the IJV partnership. Table 24 summarises the findings relevant to this hypothesis.

**Table 24: Summary of eight IJVs ownership structure, management control and HR policies and practice transferability**

	Majority Ownership	Mgt control	HR managed by	HR department	HR person	Overall HR Policies and Practices
PASH	Pars Oil	Pars Oil *	Pars Oil	No	MD of IJV	Combination S/L
Castrol Iran	Castrol	Castrol	Castrol HR	Yes	IJV HR/ MNC HR	More Standard
Behtotal SEI	Behran Schneider Electric	Behran * Schneider	IJV MD Schneider	No Yes	MD of IJV HR Manager	More Standard More Standard
Henkel-Pakvash	Henkel	Henkel	IJV MD	No	MD of IJV	Completely Local
SWEDEC	Cameron	Cameron	Cameron	No	MD and 1 admin	More Standard
ASPC	50-50%	50-50% *	Both	Yes	1 HR mgr, 1 Admin mgr, + 4	More Standard
Savola-Behshahr	Behshahr	Savola *	Both	Yes	2 HR mgrs + 1 Training mgr	Completely Local

\* rotational management control

**H7) If the local partner is a private entity, there will be greater acceptance of MNC (standard) HR policy practice. If the local partner is a public and state-owned entity, there will be more pressure to standardise or localise HR policies and practices.**

**Table 25: Public/ Private local partner and HRM transferability**

	Registered name of IJV	Public/ private local partner	Overall HR Policies and Practices
1	PASH	Public	Combination S/L
2	Castrol Iran	Private individual	More Standard
3	Behtotal	Public	More Standard
4	SEI	Private individual	More Standard
5	Henkel-Pakvash	Private company	Completely Local
6	SWEDEC	Private individual	More Standard
7	ASPC	Public	More Standard
8	Savola-Behshahr	Public	Completely Local

Although in five IJVs this hypothesis stands true (Castrol Iran, SEI, SWEDEC, Savola-Behshahr and PASH) there seem to be exceptions to this hypothesis as seen in table 25 above (Behtotal, Henkel-Pakvash and ASPC). Behtotal and ASPC should be more localised as their local partners are public sector but they are more standardised. On the other hand, Henkel-Pakvash should be more standardised as it is majority owned by Henkel and its local partner is a private-sector company, but it is completely localised. In the ranking of the micro-environmental factors, having a public or private local partner came fifth and in the overall ranking it was placed in the seventh place. This was therefore seen as an important factor in HR transferability. However, assuming these cases are representative, the research shows that having public- or private-sector partners does not affect HRM transferability in isolation; there are other factors (such as ownership, management control, strategy of the partners), which must also be examined.

**H8) Partner selection and trust will be significant in the decision to transfer HR policies and practices. If partners have worked together previously and have trust, the decisions to transfer HR policies and practices will be easier.**

Trust and building trust was seen as one of the most important factors in the overall success of the IJV and in the transferability of HR policies and practices (ranked 5 in overall environment and 3 in micro environment). As table 26 shows, the IJVs with high trust (Castrol Iran, SEI, Henkel-Pakvash and SWEDEC) have both standard and local HR policies and practices. In three of these IJVs, partners had worked together before (Castrol Iran, SEI and SWEDEC). Henkel-Pakvash came together for the first time through this IJV. However, the decision on which partner should handle HRM was not problematic in these IJVs.

**Table 26: Level of trust and transferability of HR policies and practices**

	Registered name of IJV	Trust	Overall HR Policies and Practices
1	PASH	Moderate	Combination S/L
2	Castrol Iran	High	More Standard
3	BehTotal	Moderate	More Standard
4	SEI	High	More Standard
5	HenkelPakvash	High	Completely Local
6	SWEDEC	High	More Standard
7	ASPC	Low	More Standard
8	Savola-Behshahr	Low	Completely Local

The IJVs with moderate and low trust (PASH, Behtotal, ASPC and Savola-Behshahr) are those who have partnered with the public sector and have rotational management. In these IJVs, there is a combination of standard and local HR policies and practices. These are also IJVs that dispute the transfer of HR policies and practices. The IJVs with high trust are those that have partnered with the private sector and the MNC holds majority ownership and management control (Castrol Iran, SEI, Henkel-Pakvash and SWEDEC). However, Henkel-Pakvash has completely local HR policies and practices, whereas the other three IJVs with high trust have standard policies and practices. Although there is a high degree of trust in these IJVs, management control was with the foreign partner and HRM decisions were made by the foreign partner. There was no involvement in HRM decisions by the local partner and the local partner was happy leaving HRM decisions to the MNC partner. This was also seen in the case of Henkel, where they placed their trust in the Managing Director of the IJV and because of this they also left HRM decisions to him.

The IJVs with moderate and low trust were the IJVs with the public sector and with a rotational management structure (PASH, Behtotal, Arya-Sasol and Savola-Behshahr). PASH and Behtotal had moderate trust and one of the reasons for this may be because the partners had a relationship before forming the IJV.

ASPC and Savola-Behshahr have a low degree of trust between partners.

Perhaps a reason for this was because they had not established a relationship before the IJV, or had not invested in enough time to get to know one another beforehand.

It seems that IJVs with the public sector have more difficulty with management control and trust. It also appears crucial to the IJV relationship that partners take time before establishing the IJV to build a relationship. Management on a rotational basis does not seem to foster trust, as comments below suggest.

From the findings of this study, the hypothesis is more accurately framed: If the partners trust each other, the decision to transfer HRM will be straightforward. If they do not trust each other, HRM and the general management of the IJV will be more problematic.

**H9) HR practices must be looked at separately, as there will be variation (standard or local) from one HR practice to the next.**

It is not possible to say as a result of this study recruitment and selection is more local or performance appraisal more standard. This supports the literature that argues that each HRM practice must be studied individually across geographical settings, MNC home countries, different industries and ownership structures (Lu and Bjorkman, 1997; Myloni et al., 2004; Schuler et al., 1993; Taylor et al., 1996). However, a review of research that differentiated among HRM practices shows that there are large contradictions as to which practices are more easily transferred and which are not (EIRR, 2000; Lu and Bjorkman, 1997; Weber et. al. 1998).

The research findings in this study also support the literature; firstly that each HRM practice must be studied individually; across geographical settings, MNC home countries, different industries and ownership structures. Secondly HR practices are subject to different degrees of transfer.

**H10) The selection of the Managing Director of the IJV will influence the decision to transfer HR policies and practices.**

Selection of the Managing Director of the IJV was ranked as the most important factor in HR transferability. This may be due to the high power distance, paternalistic aspects in the Iranian national culture.

Table 27 cross tabulates staff perceptions of the current Managing Director with HR policy and practice transferability. The perception of the current Managing Director is based on respondents' feedback on the role of the Managing Director.

**Table 27: Perception of Managing Director and transferability of HRM**

	<b>Registered name of IJV</b>	<b>Current Management Control</b>	<b>Perception of Managing Director</b>	<b>Overall HR Policies and Practices</b>
1	PASH	Pars Oil * / IR	Moderate	Combination S/L
2	Castrol Iran	Castrol / IR	Positive/ Moderate	More Standard
3	BehTotal	Total * / Expat	Positive	More Standard
4	SEI	Schneider Electric / Expat	Positive	More Standard
5	HenkelPakvash	Henkel / IR	Positive/ Moderate	Completely Local
6	SWEDEC	Cameron/ Expat	Positive	More Standard
7	ASPC	Sasol * / Expat	Positive	More Standard
8	Savola-Behshahr	Savola * / Expat	Moderate	Completely Local

IJVs whose staff showed a positive perception of their Managing Director (based on respondents' feedback on personality, leadership and management style) were: BehTotal, SEI, SWEDEC and ASPC. These were all IJVs which had a foreign country manager or managing director and all four IJVs had more standardised HR policies and practices. The IJVs in which employees showed a positive/ moderate and moderate perception of the Managing Director (personality and management style) were: PASH, Castrol Iran, Henkel-Pakvash and Savola-Behshahr. These IJVs all had Iranian Managing Directors, except for Savola-Behshahr who had a Jordanian Managing Director. Castrol Iran was the only IJV

which was more standardised, the other IJVs were a combination of local and standard (PASH, 3) and the other two were completely localised.

The role of the Managing Director is clearly important, not only as a father figure in Iranian IJVs but also in HR policy and practice transfer.

**H11) The roles of the MNC, macro- and micro-environment) are equally important in the transferability of HRM.**

The findings show that respondents found the micro-environment and the role of the MNC to be equally important and to have the most influence in the transferability of HR policies and practices. This was then followed by the macro-environment, which had less influence. In the overall ranking of the environments, however, the interplay of factors and environments is more clearly seen. In the first five most important factors affecting HR transferability, the selection of the Managing Director and ownership structure of the IJV are seen, followed by the MNCs decision on HRM. Size of the MNC and national culture differences are fourth in importance, followed by trust.

The author concludes that these three environments are all important in the transferability of HR policies and practices; it is not possible to separate them. There are however, individual, factors from each environment that stand out more clearly. The most important factors being the selection of the Managing Director, ownership structure of the IJV, the MNCs view towards HRM, the size of the MNC and national culture differences, the issue of trust, control of critical resources, the management style of the local partner (being a public or private sector company) and the legal framework. The complete list is below:

1. Selection of the Managing Director
2. Ownership structure of the IJV
3. The general decision towards HRM in HQ
4. The size of the MNC / National culture differences

5. Trust
6. Control of critical resources
7. Public or private local partner / Legal framework
8. Development of HR in host country
9. Selection of partner companies / Experience of forming IJVs in other countries
10. Locality of the IJV
11. Management style of host country / MNC's geographic presence in region / Organisational culture
12. Partners' perception of each other
13. Approach towards globalisation
14. Economic situation
15. Size of partner companies
16. Political situation
17. Instability of environment
18. Technological factors.

The eleven hypotheses were derived from the literature review and the author's assumptions about the different factors which could influence HR policy and practice transfer to IJVs. The hypotheses were intended to support the author's grounded theory examination of the effect of different factors on the transferability of HR policies and practices in the studied IJVs. Hypotheses 1-3 looked at the effect of the macro-environment on transferability and concluded that the instability of the macro environment (economic, political, social, governance and legal) does not have a direct effect on HR policy and practice transfer. National culture is a significant factor, but on its own cannot influence HR policy and practice transfer. The development of HRM in the local country was also considered an important factor, but this warranted further research as it was also important to take note of the MNC's strategy towards IJVs and its level of internationalisation of HRM.

Hypotheses 4-5 looked at the role of the MNC. MNCs use a polycentric strategy when they enter new markets and the amount of international experience of the MNC is definitely an important factor to take account of in HRM transfer. However, it is also important to recognise the different stages of internationalisation of MNCs and to appreciate that it is not only the local host country that may be developing HRM internally, but it is



important to note that each MNC applies HRM differently and indeed may also be at different stages of HRM development itself. The MNC is learning, through trial and error, how to internationalise, grow and transfer its HR policies and practices to new ventures. Polycentrism is seen differently among MNCs. Although they claim to be using a polycentric approach, in reality they seem reluctant to do this as it is more time consuming and difficult to adapt their tried and tested HR policies and practices.

Additionally it is important to note the MNC's type of entry to the new country. The research showed that MNCs adopt different strategies towards wholly-owned subsidiaries and IJVs. The IJV is considered a different entity to the wholly-owned subsidiary and the MNC sees it and manages it in this light. The size and age of the IJV can also be a significant factor in how HR policy and practice is transferred and how HRM is perceived in the IJV. The younger or smaller the IJV, the more growing the business is a priority, and not HRM. As we saw in several of the companies, many of the IJVs do not have an HR department yet, as this is not a priority for the business. As the IJV grows, so will its HR needs. At that stage it will have to look to the MNC, its attitude towards HRM, its level of internationalisation and policy for the IJV. Therefore, the MNC has a very important role to play in the transferability of HRM.

Hypotheses 6-11 examined the micro-environment of the IJV. Ownership control, trust and having worked together before, and selection of the Managing Director were significant factors in HR policy and practice transfer. The research also confirmed the literature review that each HR practice needs to be studied separately, it depends on the IJV and other factors. Whether the local partner comes from a public or private sector background could not be seen in isolation to influence HR policy and practice transfer.

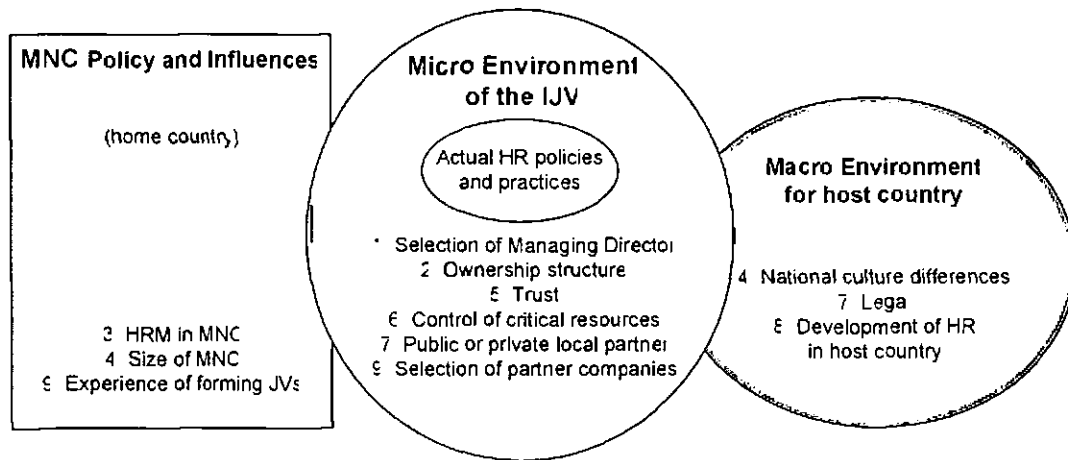
The final hypothesis held that, although factors were examined individually, the most relevant finding was that the interplay of factors from each environment worked together to affect transferability of HR policies and practices. The five most important factors were seen

as the selection of the Managing Director, ownership and management control of the IJV, the MNCs view of HRM, the size of the MNC and national culture differences.

## **6.2 Concluding Remarks and Scope for Further Research**

This study has examined the different factors in their respective environments, which affect the transferability of HR policies and practices to Iranian IJVs. Respondents ranked the micro-environment and role of the MNC as most important and then the macro-environment in HR transfer. The macro-environment is, in a way, taken for granted and companies learn to adapt to the macro-environmental factors. They learn to adapt to the legal framework in a country, its cultural make-up, political and economic institutions. As respondents clearly recognised, businesses and MNCs go where opportunities lie, where markets are growing and where competition is limited.

The author proposed a model (Diagram 2 below) that shows the overall ranking of the different environments and individual factors in those environments, which influence the transferability of HR policies, and practices to IJVs.



**Diagram 2: Model of the degree of influence of the different environments and factors on the transferability of HR policies and practices to IJVs**

However, this model has examined only the Iranian context. In order for it to cross borders and become a generic model, the following points must be examined in further research:

- 1) The Iranian national culture emphasises the role of the Managing Director as the highest authority in an IJV. Perhaps the importance of the Managing Director will be seen differently in lower power distance cultures. However, should this model be used in other developing or transitional countries, the author believes this factor could remain as the most important in HR transfer.
- 2) National cultures of countries must be examined carefully. As the differences in national cultures increase, so too will the sensitivities and complexities. The more time invested at an early stage to understand the national culture of the host country, the more this will help the IJV in the long run.
- 3) Ownership of the IJV, management control and control of critical resources are without a doubt very significant in HR policy and practice transfer. This will be the same in any country, whether developed or developing.

- 4) The role of the MNC in this model requires further research and analysis. Each MNC is unique in its level of HRM development, national culture, level of internationalisation and adaptability to local environments. The research has shown that even the largest and oldest MNCs have different approaches to IJV, to HRM and to being polycentric.
- 5) The general view towards HRM in the MNC needs to be assessed and the industry the MNC operates in. Some industries will put more pressure on the MNC to produce a more strategic approach towards HRM (as in the oil industry).
- 6) The organisational strategy of each MNC needs to also be considered. As the research showed MNCs view of IJVs and their involvement in IJVs is different.
- 7) Each IJV is at different stages of its lifecycle. In smaller IJVs, the priority is not on HRM but rather on growing the business.
- 8) The local partner; its size in its local market, credibility, management style and diversity to the MNC must also be considered initially in the IJV relationship and in the transfer of HRM.
- 9) Trust and building trust should not be taken lightly in any strategic cooperation. Partners must invest time to build trust, especially when entering developing or transitional markets. Iran is a relationship-oriented country and time to build trust is seen as one of the most important factors to success in forging international alliances.
- 10) The findings also show that MNCs need to do more research before entering an IJV in a host country. Both cultural and institutional frameworks need to be considered. Many MNCs mainly examine the macro-environment and the opportunities in the market, but not enough attention is provided to the softer aspects of the cultural and institutional frameworks within each local environment. Each new country needs to

be considered individually before setting up the IJV to understand the national culture, management and development of HRM in the country.

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## **Appendix I: Interviews with managers of IJVs, companies and organisations**

The following is a list of persons who were interviewed in the first and second stages of research.

Research Stage 1 includes the collection of general information relating to the environment in which IJVs can be established (Phase (a)) and management and HRM in Iran (Phase (b)).

Research Stage 2 includes the interviewees who were interviewed in phase (a), phase (b) and phase (c).

### **Research Stage 1: List of interviewees to better understand the environment for setting up IJVs (macro environment) Phase (a) (1998-2000)**

- 1) Ministry of Finance and Economy, Board for the Attraction and Protection of Foreign Investment.
- 2) Mr. Souresrafil, Treasurer, Chamber of Commerce, Board for the Joint Venture Association.
- 3) Mr. Edi Cartier, Managing Director, Shell Development Iran.
- 4) Mr. Mathius Boddenburg, Managing Director and Representative in German-Iran Chamber of Commerce.
- 5) Mr. Abass Nasiri, Managing Director, Iran Sayena, private Iranian company involved in manufacturing electronic components and also on the board of directors of two joint ventures.
- 6) Mr. Pascal Reigner, Managing Director, Schneider Groupe Iran, with many years of international experience in Africa and Europe.
- 7) Mr. Patrick Fayan, Managing Director Schneider Iran joint venture, involved in setting up joint ventures in China.
- 8) Mr. Hesketh Streeter, Associate President BP, years of multinational working experience especially involved in BP-Amoco-Arco-Castrol mergers.
- 9) Mr. Alan Stott, Managing Director BG Iran, years of extensive international experience.
- 10) Mr. Allvandpour, HR Advisor to the National Iranian Oil Company.

### **Stage 1: Interviewees to examine the management style and HRM in Iran (Phase (b)) (1998-2000)**

- Mr. Amir Jalilvand (industrial consultant, working experience in public and private sector Iranian companies).
- Mr. Bijan Khajehpour, Managing Director, Atieh Bahar Consulting, private strategic consulting firm, educated in Germany and the UK, lived abroad extensively.
- Mr. Mathius Boddenburg, German representative in Iran-German Chamber of Commerce.

Dr. Fariba Latifi, University lecturer in management and HRM, Sharif university, Tehran.

Mr. Takamisha, Japanese representative in JETRO

Mr. Saman Nekounam, Managing Director, Sony Iran

Dr. Shahrnaz Mortazavi, Senior University Lecturer in Organisational Behaviour and Psychology, Shahid Beheshti University, Tehran.

Mr. Peyman Dayyani, HR Manager, Shell Development Iran.

Ms. Naderi, HR Manager Butane Company, private Iranian company.

Mr. Dehghan, Administration Manager Iran Seb.

### Stage 2: Interviews with eight IJVs (Phase (a))

The following table shows the names of the IJV as used in the study, the name of the MNC and local partner.

	Registered name of IJV	Name of MNC	Name of Local partner
1	PASH (Pars and Shell)	Shell	Pars Oil
2	Castrol Iran	bp	Mr. Moussavi
3	BehTotal	Total	Behran Oil
4	SEI (Schneider Electric Industries)	Schneider Electric	Mr. Nassiri
5	HenkelPakvash	Henkel	Pakvash
6	SWEDEC	Cameron	Mr. Yamini
7	ASPC (Arya Sasol Polymers Co.)	Sasol	National Petrochemical Corporation (NPC)
8	Savola Behshahr	Savola	Behshahr Industrial Corporation (BIC)

22 interviews in total (over the period of 2002-2004/5) was conducted for phase (a).

	Name of IJV	Persons interviewed	Expatriate or Iranian	Years of international/ Iran experience of interviewee/ last posting	Year of interview
1	PASH	1. IJV General Manager 2. MNC HR Manager 3. MNC HR/Fin. Manager	Dutch Iranian British	15+ int'l / Saudi Arabia 2+ Shell Iran 10+ yrs / China, Brunei	2002 2002 2004/5
2	Castrol Iran	4. MNC HR Manager / Dubai 5. Local Partner General Manager 6. MNC Country Manager/ IJV Board Member 7. MNC HR Manager/ 8. IJV HR Manager	British Iranian British Iranian Iranian	20+ int'l / UAE, UK 10+ Iran / UK educated 20+ int'l / UAE, Qatar, ME 15+ Iran, 5 yrs in BP 5+ Iran, PA background	2002 2002 2005 2005 2005
3	Behtotal	9. IJV General Manager 10. IJV General Manager 11. MNC HR Manager	French French French	15+ int'l / China 15+ Belgium with Total 20+ int'l / Africa	2002 2005 2005
4	SEI	12. MNC Country Manager 13. IJV Country Manager 14. Local Partner General Manager	French French Iranian	20+ int'l / Africa 15+ int'l / China 20+ Iran	2002 2002 2002

		15. IJV General Manager	French	25+ int'l / Thailand	2005
		16. MNC & IJV HR Manager	Iranian	10 Iran / 4 yrs in SE Iran / Sales background	2004/5
5	Henkel-Pakvash	17. IJV General Manager	Iranian	20+ Iran / US educated PhD	2004/5
6	SWEDEC	18. IJV General Manager	Scottish	20+ int'l / UAE, Russia	2005
		19. IJV Chairman of the Board	Iranian	20+ Iran/ UK educated	2005
7	ASPC	20. IJV Deputy MD	S. African	20+ int'l / China only	2005
		21. MNC HR Consultant	S. African	20+ South Africa only	2005
8	Savola-Behshahr	22. IJV HR Manager	Iranian	15+ Iran / Iraq, US educated	2005
	<b>Total interviews</b>	<b>22 interviews</b>			

## Stage 2: Interviews with final eight IJVs (Phase (b)) 2004-2005

Objective of interview was to understand the MNC HRM policy for Iran and for other subsidiaries.

Name of IJV	Position of manager	Expatriate or Iranian
PASH	1. MNC HR and Finance Manager	Expatriate
Castrol Iran	2. MNC Country Manager (also IJV Board Member)	Expatriate
	3. MNC HR Manager	Iranian
Behtotal	4. IJV General Manager	Expatriate
	5. MNC HR Manager	Expatriate
SEI	6. IJV General Manager	Expatriate
	7. MNC/IJV HR Manager	Iranian
HenkelPakvash	8. IJV General Manager	Iranian
SWEDEC	9. IJV General Manager	Expatriate
ASPC	10. IJV Deputy Managing Director	Expatriate
	11. MNC HR Consultant	Expatriate
Savola Behshahr	12. IJV HR Manager	Iranian

12 interviews in total were conducted for phase (b).

## Stage 2: Interviews with final eight IJVs (Phase (c)) 2004-2005

The objective of this interview phase was to understand the degree of influence of the environment on the transferability of HRM policies and practices in the IJV.

Name of IJV	Position of manager	Expatriate or Iranian
PASH	1. MNC HR/ Finance Manager	Expatriate
Castrol Iran	2. MNC HR Manager	Iranian
Behtotal	3. IJV General Manager	Expatriate
SEI	4. IJV General Manager	Expatriate
	5. IJV HR Manager	Iranian
HenkelPakvash	6. IJV General Manager	Iranian
SWEDEC	7. IJV General Manager	Expatriate
ASPC	8. IJV Deputy Managing Director	Expatriate
Savola Behshahr	9. IJV HR Manager	Iranian

9 interviews in total were conducted for phase (c).



## **Appendix II: First Stage, Phase (a) Semi Structured Interviews**

### **Macro Environment Semi Structured Interviews: The Environment for Setting up IJVs**

- 1) Introduction to interviewee, knowledge of Iran, how long has the person been in Iran, person's background, international exposure
- 2) Having been in Iran and working with foreign companies, what would you say are the important factors that companies face when entering/ working in Iran?
- 3) What is the most difficult factor for foreign companies in Iran?
- 4) How do you think the laws and regulations, economic situation and other factors affect foreign investment in Iran? Do you think these factors have any impact of foreign investment?
- 5) How do you see foreign investment in Iran? Do you know many companies who have invested in Iran and what is their feedback?
- 6) If we compare Iran to countries like China, India, we are much behind them on foreign direct investment? Why is Iran so behind and what do we need to do to catch up?
- 7) How do you think we can improve the situation for foreign investors?
- 8) How would you describe the environment for setting up IJVs in Iran?
- 9) Do you know any of the IJVs here? What experience do you have of IJVs if at all, in Iran or elsewhere?
- 10) What would you say is the management style in Iran?
- 11) Can you describe how the management style in Iran is different to your country/ other countries and why?
- 12) What are the positive factors in the management style in Iran?

**Thank you for your time.  
End.**

## **Appendix III: First Stage, Phase (b) Semi Structured Interviews**

### **Management and HRM in Iran Semi Structured Interviews**

- 1) Interviewee's background, field of activity, education, years of work experience, international experience
- 2) Can you explain what your current job is? How many people you manage? How many years in company? Private or public sector, number of employees, background to company, etc.
- 3) How would you explain management in Iran? What characteristics does Iranian management have?
- 4) How is Iranian management different to other forms of management? Can you explain what other forms of management you know?
- 5) What are the strengths of Iranian management, weaknesses?
- 6) How would you describe the management in your company?
- 7) How would you describe the influences on your form of management? Where did you learn how to manage?
- 8) How do you think Iranian management is similar or different to your type of management?
- 9) What do you understand of human resource management?
- 10) Do you use HRM in your organisation? How?
- 11) Do you have an HR manager?

**Thank you for your time.  
End.**

## **Appendix IV: Second Stage Semi Structured Interviews (Phase a)**

### **Joint Venture Partner Semi-Structured Interview**

#### **Questions relating to the joint venture:**

- 2) Please explain the nature of your joint venture?
  - When was it established?
  - The name, industry?
  - Percentage foreign/ Iranian ownership?
  - Products?
  - Exporting to any markets?
  - Basis of IJV, equity, technology?
- 3) Further info?
  - Number of personnel?
  - Foreign representative of the foreign company based permanently in Iran?
  - How many foreign expats?
  - Who is the MD? Is he foreign or Iranian?
- 4) Background to how and why you formed a joint venture?
- 5) Did you know or had you worked with this partner before?
- 6) How did you decide on the current level of foreign ownership? i.e. dictated by law? MNC preference? were there objections from either company or the Ministry of Economic Affairs and Finance?

#### **Examining macro issues:**

- 7) In your opinion what are the environmental issues and obstacles facing your joint venture?
- 8) Are these obstacles the same for all IJVs or yours in particular?
- 9) How does your foreign partner perceive Iran? In terms of working atmosphere, in terms of people and country?
- 10) Other developing countries have attracted a great deal of foreign investment, why do you think Iran has not to date?
- 11) What are the main problems with Iranian management? (mismanagement, corruption, short term view, etc.)
- 12) How would you define the style of management in Iranian companies, i.e. what are the characteristics of Iranian management?
- 13) Would you say Iranian management is closer to western, eastern or has its own unique management style?
- 14) What are the characteristics of your foreign partner's/ local partner's management style?

15) What factors affect the style of management? Organisation, leadership, MD's position, education, etc.? Please explain.

**Examining micro issues - joint venture partnership:**

- 16) How do you perceive your IJV partner? Are you happy with the alliance? And if so, what do you see as your strengths? (joint learning?)
- 17) What do you think the advantages of forming this joint venture has been to both parties? What were your objectives? What have you gained from the IJV? Other partner?
- 18) What do you see as the weaknesses of the IJV?
- 19) Who makes decisions in the jv? For the foreign partner? For the Iranian partner?
- 20) Who has management control and why?
- 21) Does this rotate?
- 22) Who is your Iranian local partner? what kind of management do they have? What decisions do they make in the IJV?
- 23) Who manages HRM?
- 24) How are HR practices and policies decided in your firm?
- 25) What is the foreign partner's involvement in HR decisions?

Thank you for your time. Ask if would like to see my minutes when I finish preparing them?  
Any other questions.

**Thank you for your time.  
End.**

## **Appendix V: Eight IJV Interview Questions (Research stage 2, phase (b))**

**Date:**

**Time interview started:**

**Time interview ended:**

Interview's name:

Interviewer's position:

Duration in this position:

How many years in HR profession:

Training received:

Background to interviewer:

### **Description of nature of the IJV: (RECAP since last interview)**

(Objective: trying to understand background to IJV)

- 1) name of the JV, partners and ownership control
- 2) industry/ production
- 3) number of staff
- 4) when was the IJV formed
- 5) what was the reason for forming the IJV?
- 6) what did each partner bring to the JV?
- 7) where is it located
- 8) who are the partners/ public/ private/ MNC origin and nationality
- 9) what is the ownership structure/ board of directors
- 10) how is management controlled/ divided? (2-3 yearly)
- 11) how long have you been a part of this life cycle
- 12) names of other managers (Iranian and foreign and access to them?)
- 13) is there an individual IJV company?
- 14) what does the foreign partner do in Iran? Is it represented in this market?
- 15) do you know how the IJV was formed? Had both companies worked together before?

### **Internationalisation of foreign partner:**

(objective: trying to understand ethnocentric/ polycentric)

- 16) What is your understanding of HRM? Can you explain how you see HRM?
- 17) Is HRM strategic? How would you explain its strategic nature?
- 18) How is HRM handled in the home country? A division? Who runs it? What is the org structure in subsidiaries around the world?
- 19) How would you explain the process of HRM in the MNC?
- 20) What HRM practices do you employ in the IJV? (prompt for R&S, Rem, PM, T&D)
- 21) Do you use the same HR policies in Iran as you would do in the MNC or is it different? Where do you get HR policies and strategy? Do you design it? Does the regional manager design it? What is it based on? Please explain either response
- 22) Is this the same for subsidiaries all over the world? in the Middle East/ east? Is this a universal policy or do you apply different policies for different countries? Please explain.

### **Transferability of HRM:**

(objective: starts with an understanding of HRM and then continues on transferability and environmental effects)

23) Can you discuss how you apply these practices in the MNC/ other subsidiaries/ in the IJV

a. Recruitment and Selection

Including: where do you recruit from? What sources do you use? What positions do you mostly fill? Generalist or specialist levels? What type of potential do you look for in candidates? How do you identify talent/ Does your IJV partner help in this process?

b. Performance management/ appraisals

Do you have performance appraisals? How are they performed? Influenced by who?

c. Compensation and remuneration

Who decides pay packages? How much local, how much foreign influenced? Bonus? Performance based? Seniority issues?

d. Training and development

Who goes on training, in-house, out sourced, involvement of foreign partner in training decisions

24) Is local knowledge used or taken into consideration when designing the HRM practices and policies in your IJV?

If yes, in what practice and how?

What about HR policies, how are they decided?

25) How do you reach the decision to standardize or localize HR practices and policies?

1	2	3	4	5
Equivalent to MNC standard HR P&P	More similar to standard MNC	Standard policies but local realities	More similar to local HR P&P	Equivalent to local HR P&P

	Standardized (1)	Localised (5)	Comments
<b>HR policy/ practice</b>	1.....2.....3.....4.....5		
<b>Recruitment and Selection</b>	1.....2.....3.....4.....5		
Manpower planning	1.....2.....3.....4.....5		
Succession planning	1.....2.....3.....4.....5		
Interviews/	1.....2.....3.....4.....5		
Psychometrics and assessment	1.....2.....3.....4.....5		
Recruitment of Senior management positions and professionals	1.....2.....3.....4.....5		
Resourcing strategy: recruitment of senior management and professionals	1.....2.....3.....4.....5		
Competency framework	1.....2.....3.....4.....5		
Other	1.....2.....3.....4.....5		
<b>Performance management/ Appraisals</b>	1.....2.....3.....4.....5		
Appraisal forms?	1.....2.....3.....4.....5		

Appraisal guidelines/ structure?	1.....2.....3.....4.....5	
Identifying KPIs/ objectives?	1.....2.....3.....4.....5	
Giving feedback?	1.....2.....3.....4.....5	
360 feedback?	1.....2.....3.....4.....5	
<b>Compensation</b>	1.....2.....3.....4.....5	
How is remuneration structured?	1.....2.....3.....4.....5	
Performance based or seniority?	1.....2.....3.....4.....5	
<b>Training and Development</b>	1.....2.....3.....4.....5	
Training programs?	1.....2.....3.....4.....5	
Training needs analysis?	1.....2.....3.....4.....5	
Leadership development?	1.....2.....3.....4.....5	
Mentoring programs?	1.....2.....3.....4.....5	

26) How and why did you reach these decisions? What were the deciding and influencing factors? Does this apply to all subsidiaries across the world?

27) Are these decisions decided by HQ or a regional office?

28) Have you had any problems in implementing these practices? Please elaborate if yes.

29) Were you allowed to modify the policies and practices and change them if you felt they were not appropriate for the company?

30) Does your partner object to the control of HRM decisions? How does your partner feel in relation to HR issues? What involvement does your partner have in HR issues?

31) When you decide to standardize or localize your HR practices and policies, what environmental factors/ general factors affected your decision?

- a. Did the macro environment (such as economic, political, legal, social, etc) effect your decision to standardize or localize your HR practices?
- b. Country specific factors: economy, political, social, cultural, legal of Iran\ The strict labor laws in the country
- c. The uncertainty of the market, (did this cause you to localize practices or pass HR decision making to your Iranian partner)
- d. Your role as an MNC, (done this in one country, can do it in another country approach) / or the local knowledge of the local partner
- e. The culture of the company/ country
- f. Majority ownership/ transfer of technology?
- g. Private sector/ public sector partner
- h. The development/ internationalization of the new country
- i. The access and potential of the HR base in the country?

- j. The ownership and control of the IJV? (separate the two: ownership/ control of critical resources)
- k. Others, please list.....

32) Do you think any of the environmental factors affected your decision to standardize or localize? Please elaborate.

**End.**

Thank you for your time. Ask if would like to see my minutes when I finish preparing them?  
Any other questions.



## **Appendix VI: Stage 2, Phase (c), Influence of factors on transferability**

### **Final interviews on influence of environment on transferability**

This section will then be the final interview on the factors and their degree of influence.

This interview should be completed with an HR manager of senior Board Director/ manager.

**Name:**

**Position:**

**Date:**

**Time started:**

**Time ended:**

- 1) In an earlier interview (dated...) you mentioned the following:  
Your HR policies and practices are S/L in these functions.
- 2) What factors do you think effects your decision to standardize or localize practices and policies (prompt own answer)
- 3) I would like to show you a few factors, tell me which you think may effect the transferability of HRM practices and policies in your IJV.

For each factor also say which is most important and to what degree (on a scale of 1-5, 1 being least, 5 being most important) you think this influences the decision to s/l the HR practices in the IJV

- a. Macro environment in the country:
  - i. Political situation
  - ii. Economic situation
  - iii. Social
  - iv. Cultural
  - v. Legal
  - vi. Technological
  - vii. The instability of the environment
  - viii. The management style of the local partner?
  - ix. The development of HR (lack or progress) in the host country?
- b. The role and MNC policies
  - i. The general decision towards HRM in HQ
  - ii. The experience of forming IJVs in other countries
  - iii. The size of the MNC
  - iv. The geographic spread of MNC and presence in region
  - v. The approach to globalisation  
How controlling are the companies, how much freedom do they give to subsidiaries and JVs

- c. The environment of the IJV; such as the
  - i. Ownership structure of the IJV
  - ii. Management style; Private/ public ownership of the local partner
  - iii. Trust, having worked together before
  - iv. Control of critical resources
  - v. Organizational culture
  - vi. Perception of partners towards each other
  - vii. Size of partner companies?
  - viii. Selection of partner companies?
  - ix. Locality of JV?
  - x. National culture differences?
  - xi. Personality of current management and trust?

d. Are there any other factors you think are more important than these?

4) Please give examples on the above.

5) Is there anything further you would like to add?

6) Would you say, this is similar in other IJVs? Please elaborate.

**End.**

Thank you for your time. Ask if would like to see my minutes when I finish preparing them.

<b>Degree of influence of factor on transferability of HR policies and practices</b>					
	1 Least influence	2	3 Some influence	4	5 Most influence
<b>a. Macro environment in the country:</b>	1	2	3	4	5
i. Political situation	1	2	3	4	5
ii. Economic situation	1	2	3	4	5
iii. Social	1	2	3	4	5
iv. Cultural	1	2	3	4	5
v. Legal	1	2	3	4	5
vi. Technological	1	2	3	4	5
vii. The instability of the environment	1	2	3	4	5
viii. The management style of the local partner?	1	2	3	4	5
ix. The development of HR (lack or progress) in the host country?	1	2	3	4	5
<b>b. The role and MNC policies</b>	1	2	3	4	5
i. The general decision towards HRM in HQ	1	2	3	4	5
ii. The experience of forming IJVs in other countries	1	2	3	4	5
iii. The size of the MNC	1	2	3	4	5
iv. The geographic spread of MNC and presence in region	1	2	3	4	5
v. The approach to globalization: How controlling are the companies, how much freedom do they give to subsidiaries and JVs	1	2	3	4	5
<b>c. The environment of the IJV; such as the</b>	1	2	3	4	5
i. Ownership structure of the IJV	1	2	3	4	5
ii. Management style; Private/ public ownership of the local partner	1	2	3	4	5
iii. Trust, having worked together before	1	2	3	4	5
iv. Control of critical resources	1	2	3	4	5
v. Organizational culture	1	2	3	4	5
vi. Perception of partners towards each other	1	2	3	4	5
vii. Size of partner companies?	1	2	3	4	5
viii. Selection of partner companies?	1	2	3	4	5
ix. Locality of JV?	1	2	3	4	5
x. National culture differences?	1	2	3	4	5
xi. Personality of current management and trust?	1	2	3	4	5
	1	2	3	4	5

Questions or information on each factor:

## Appendix VII: Application of HR policies and practices in the eight IJVs

	General Policies	R&S	T&D	Remuneration	PA	Reasons
PASH (3)	<b>2</b> Headers in policy manual are same, Local labour law taken into consideration	<b>4</b> Advertise for CVs, friends, Senior positions MNC No ACs, No Comp AS Small venture	<b>4</b> People go on Shell courses, no career development, no structure	<b>2/3</b> Used Shell pay scale, now has become more local practice, Used Shell JE. More localized since MD's change	<b>3</b> Use an older version of Shell's, now more localized since MD change. Most culturally sensitive	Become more local maybe because of mgt change, also no HR, size, start up capital was small...
Castrol (2)	<b>3</b> BP's policy is to think globally and act locally. must follow a country's rules and regulations We take the best from both sides and develop a suitable policy for Iran, none of these policies can be applied anywhere else in the region	<b>2</b> Interview techniques and questions from BP, localized some questions.  Interview techniques 2  Comp 1  No ACs	<b>3</b> there is a standard management and leadership training – outsourced, outside Iran. For core and foundation training, we localize all the training based on BP competency models.	<b>2</b> Everything comes from BP in terms of the guidelines using Total Reward Policy which stresses pay for performance, but figures, bonuses, pay lines is local, especially taking the local Labour Law into consideration.  Bonus 3 JE 1	<b>1</b> New culture, Completely standardized, the forms and questions  Appraisal forms 1  Guidelines and policies 1  Identifying KPIs/ objectives 1	Can be modified to fit in with local laws.
Behntotal (2)	<b>2</b> , Not yet structured, have gaps and HR is our weak point	<b>2</b> , The only influence comes from Total, but we have to find it ourselves. Nothing received from Behran. Not structured, our weak point JD 1	<b>1/2</b> , Not structured, but any course is MNC.	<b>3</b> , Initially got info on contract and remuneration from Total but we localized this to Iran reality. Must be fair with employees. Very big difference with local partner  Structure of pay 2	<b>Not done</b>	We do our best.
Schneider (2.5)	<b>3</b> Guideline from SE, localized to Iran. becoming more standardized each year	<b>4</b> , Received a lot of training	<b>2</b> , Not very structured, but standardized Career dev 2 Local courses 3 Region courses 2	<b>2/3</b> , Policy is global, but each subsidiary decides how to implement the policy to local law, performance based,	<b>1</b> , Based on competencies,  Comp plan 1 Personal	Reasons MNC decided this way globally, but flexibility for cultural sensitivity

			Succession planning starting this year	also seniority based.	development plan 1	Hardest Iranian ego
Henkel-Pakvash (5)	5	5, All done locally, not input from Henkel. Only 3 top positions are okayed by Henkel	5, Most staff did not have language skills so could not use MNC trainings	5 Based on merit and performance. Biggest challenge was Iranian labour law, biggest obstacle to growth and development	5, Difficult, for sales, very subjective, not very achievement based	The MD suggested that this is the way this is done throughout all subsidiaries and JVs of Henkel, especially the JVs.
SWEDEC (2.5)	3, Received from Cameron Singapore, adjusted to local market JD 1 Grading	3, More standard to start with, then became more local	2, Mainly technical, overseas. Everyone receives training	3, Simple grading system, need to make it more structured. Performance based	2, Started with manual from South East Asia, but are gradually building up on this  Career development 1	Use MNC HR manual but localize more on practices which are more culturally sensitive, discuss with local partner
Arya Sasol (2)	3, Using HR framework from Sasol, trying to localize it	1, All Sasol championed. Comp 1	2, Policy focuses on competency and promotion based competencies	5, Need it to be more MNC	2, not done as yet, if it was, it would be MNC	Get tools from Centers of Excellence, but no buy in from NPC
Savola-Behshahr (5)	5	5, Can't really match salary expectations so lose talent. Very Iranian seeing talent only in qualifications and experience, not potential	5, Not structured	5, Very public sector	Not done.	Although Savola wanted to manage this, it is all done by Behshahr, who have been doing it this way for past 50 years and resist the change.

## Appendix VII: Application of HR policies and practices in the eight IJVs

The Likert five-point scale showed standardised or localised HR policies and practices in the IJV, where level 1 represented the most standardised to MNC HR policy and practice (P&P) and 5 the most localised.

1	2	3	4	5
Equivalent to MNC P&P	More similar to standard MNC	Standard policies but local realities	More similar to local HR P&P	Equivalent to local HR standard HR P&P

### **PASH (overall combination of local and standard)**

Pars and Shell company applies a mix of local and standard HRM policies and practices. Because this is an IJV, the approach by the MNC (Shell) is more hands off. Shell leaves the IJV to basically make its own decisions and way. However, if it finds the IJV is heading off track, it will intervene and guide it back. Examples are seen below.

#### **General Policies are more standardised (2)**

The MNC needs to make sure the IJV is complying to standard HR policies, therefore all headers in the policy manual are the same. The policy manual is shared with the IJV, however the local labour law is taken into consideration. Therefore where flexibility may be needed in order to conform to the local labour law, it is provided in the policy and practices.

#### **Recruitment & Selection is more localised (4)**

Recruitment and selection is more similar to local policies and practices and the IJV is left very much on its own here. As this is a small venture, no formal or standard policies and practices apply here. Where Royal Dutch Shell would normally use assessment centres and competency frameworks, in PASH none of this is done. Recruitment and selection follows very local practices such as advertising in the newspapers, recommendations from friends. However only in the case of senior management is the MNC engaged. They must provide their approval on top management positions; including finance, HR, sales and the Managing Director position which is in rotation.

#### **Training & Development is more localised (4)**

The IJV can use Shell's training opportunities and sometimes staff is sent on Shell courses. However there is no structure to this and training and development is treated on an ad hoc basis. It is not tailored into the HRM system as part of development of staff. Training and development is seen more as a perk. It is not structured and is not part of a continuous HRM circle.

#### **Remuneration is slightly more standardised (2/3)**

Interestingly, this is the only main area which Shell does get involved in the IJV HR policies and practices. Initially when the Managing Director was appointed by Shell (a Dutch gentleman) there was much more HR being practiced in the IJV. Remuneration especially had a very standard flavour. However, when the MD changed over to a locally appointed Managing Director, although the Shell pay scale is still being used, the practices and application has become much more localised. They used the standard Shell pay scale and evaluation system, but now as the Managing Director has become a locally appointed person, the overall remuneration practice has become more local practice, conforming with Iranian public sector practices.

For example, Shell noticed there was a high turn over rate and started taking more notice about the negative image the IJV was creating in Iran. They found staff dissatisfied with management and pay. They forced the IJV to come into the annual salary survey and influenced salary decisions.

**Performance Appraisal is a combination of local and standard (3)**

The IJV started using an older version of Shell's standardised performance appraisal form. However when the Managing Director has changed, this too has become much more localised and in general it is hard to implement in Iran as it is culturally sensitive and performance appraisals are not seen as objective instruments to provide feedback with.

**Reasons**

It is important to recognise that this is not a subsidiary of Royal Dutch Shell, rather it is IJV and IJVs are treated differently and with a more hands off approach. The general policy in subsidiaries would indeed be a polycentric approach, but IJVs are treated differently. It is also important to recognise that since management has changed from a Dutch appointed Managing Director to a locally appointed Iranian Managing Director, a difference has been seen in the localisation of HR policies and practices.

Additionally, factors which may influence the local approach are that there is no HR department in the IJV, the size of the venture is small, as was the start up capital.

**Castrol (overall more standardised)**

Castrol holds a 51% majority ownership and insisted that management and HRM are controlled by the MNC. In all subsidiaries and IJVs where Castrol/ bp operate, it insists on controlling the partnership and control management decisions.

At the same time, it believes in being locally responsive to the local culture, laws and norms, as can be seen in examples below.

**General Policies are a combination of local and standard (3)**

bp's policy is to think globally and act locally. It believes it must follow a country's rules and regulations, therefore they try to take the best from both sides and develop a suitable policy for each country. For example, the policies and practices developed in Iran can not be applied anywhere else in the region

**Recruitment & Selection is more standardised (2)**

Recruitment and selection is more standardised. All interview techniques and questions come from BP, some questions have been localized, such as asking about a person's family, which is not common in standard BP interviews, as a person's personal life is not important. In Iran however these questions are important, therefore the interview has been modified to take local culture into consideration.

A standard competency framework is used, however bp does not use assessment centres in Iran nor the region. Interview techniques are provided by bp's regional HR office.

**Training & Development is a combination of local and standard (3)**

For higher level training such as leadership, there is a standard management and leadership training which is conducted outside Iran. For core and foundation training, this is done in Iran, where bp provides the content but trainers localise and deliver in Farsi. All training is based on BP competency models.

**Remuneration is slightly more standardised (2/3)**

Everything mainly comes from BP in terms of the guidelines of how to use Total Reward policy, the pay for performance system, job evaluation, grades and so forth. But bonuses, pay line, labour law considerations and so forth is more local.

<b>Performance Appraisal is completely standardised (1)</b>
In Iran there is not a common understanding for performance appraisal. The PA system in Castrol Iran is introducing a new culture so everything in this system is completely standardised. The appraisal form, guidelines, policies, identifying KPIs and objectives, questions, everything is completely standardised.
<b>Reasons</b>
It is important to keep the glocal balance, to maintain global policies but keep local applications and modify the programs to fit in with local laws.

<b>Behtotal (overall more standardised)</b>
Total has a hands off approach with their IJV partners worldwide. If the partner was a subsidiary, there would be a completely different relationship, but because this is an IJV partner, Total are much more hands off with them. When the IJV asks for help, Total will try to help, if they do not ask for help, Total will not generally offer any assistance.
<b>General Policies are more standardised (2)</b>
Although the general policies are more standardised, the Managing Director noted that there is not enough or hardly any structure to their HR system. He admitted that there are gaps in their HR and that he considered it a weak point. Noteworthy to add, there is no HR department, HR assistant or manager in the IJV. All HR related activities are handled by the Managing Director.
Also important to note that the management of the IJV is on rotation of 5 years. The term of Total will be ending soon and Behran will soon appoint a new managing director.
<b>Recruitment &amp; Selection is more standardised (2)</b>
The only influence and assistance to recruitment and selection comes from Total, but the IJV has to ask for it. Behran, the local partner, does not provide any assistance in this matter at all. Both partners have left the IJV very much to find its own ground on all HR related activities (except remuneration).
Recruitment and selection is not structured and it is considered a weak point. All job descriptions come from Total and nothing is received from Behran Oil.
<b>Training &amp; Development is almost completely standardised (1/2)</b>
There is no structure and courses/ programs are very much on an adhoc basis. Whichever course is available comes from Total.
<b>Remuneration is a combination of local and standard (3)</b>
To start with Total helped in providing guidelines and information on contracts and remuneration figures, trends and expectations. However this was localised to Iranian realities. The policies in the IJV are still very different to the local partner. It would be fair to say the IJV is somewhere in between the MNC and local partner in terms of its remuneration policies and practices. The belief to be fair and transparent with employees is of great concern to the IJV. The structure of pay and trying to keep a total reward picture in mind is more standard than local.
<b>Performance Appraisal is not done at all</b>
Not done.
<b>Reasons</b>



Behntotal has tried to do its best with its resources and HR expertise. It admits that HR is its biggest problem and its weak point. At the moment they are still too small to worry too much over HR decisions and this will fall on the Managing Director's shoulders, until they begin to grow and develop. In this case, they will need to create a more formal HR structure.

### **Schneider Electric (SEI) is overall more standardised (2.5)**

Schneider Electric is a majority shareholder and also has management control of the IJV. They also have complete control of HRM.

#### **General Policies are a combination of local and standard (3)**

All guidelines are received from Schneider Electric headquarters and localised to Iran. However it appears that Schneider Electric (SE) is becoming more standardised each year and more standard policies and processes are required.

#### **Recruitment & Selection is more localised (4)**

Initially this was more standardised but the HR Manager received a great deal of training on competencies, psychometrics, behavioural interviewing and the process is more localised now. Questions are asked which are far better suited to the Iranian culture and norms.

#### **Training & Development is more standardised (2)**

Training and development is not very structured, but it remains very standardized in terms of the types of training which is mostly overseas or alternatively external trainers are brought in. There are a few local courses which are suggested for lower level staff. There are also some regional courses run in Turkey and the UAE which allow staff from Iran to attend. Other activities include career development plans which are tied in with training and development.

#### **Remuneration is more standardised but with some local input (2/3)**

There is a global remuneration policy, but each subsidiary has the freedom to decide how to implement the policy to local law. It is performance and also seniority based.

#### **Performance Appraisal is completely standardised (1)**

Performance Appraisals are completely standardised and based on competencies from headquarters. Each person has a personal development plan which is also completely standardised.

#### **Reasons**

The MNC runs this IJV as a subsidiary, so global policies must be respected and implemented however cultural sensitivities are also taken into account.

The hardest challenge of localising HR policies and practices has been dealing with the Iranian egos and sensitivities. Many of these HR policies and practices are new and rather than accepting the feedback for better development, many Iranians are up with large egos and are too sensitive overall.

**Henkel-Pakvash (overall completely localised)**

Although Henkel is a majority shareholder, it prefers to let this IJV run very locally. Henkel does not get involved or interfere in daily management issues, nor does it have anything to do with HR issues which is solely left to the Managing Director's discretion.

**General Policies are completely localised (5)**

All HR policies and practices are completely localised.

**Recruitment & Selection is completely localised (5)**

All recruitment and selection is done locally, there is no input from Henkel. Only 3 top positions are okayed by Henkel after going through the Iranian selection process.

**Training & Development is completely localised (5)**

Training and development is not at all structured and very random. Most staff did not have language skills so could not use MNC trainings.

**Remuneration is completely localised (5)**

The Iranian Managing Director suggested remuneration was based on merit and performance, however knowing the company from other sources, the remuneration policy and practice is very cumbersome, administrative and non-transparent. It operates more as a public sector remuneration system than a MNC designed system. The Managing Director noted the biggest challenge the company faced was dealing with the Iranian labour law, which was the biggest obstacle to growth and development.

**Performance Appraisal is completely localised (5)**

This was not done well at all, very subjective and not very achievement based. This was only done for sales staff but even so it was not producing good results.

**Reasons**

Henkel seems to have a very hands off relationship with the IJV. The MD suggested that this was the way Henkel approached all subsidiaries and JVs around the world. No one in Henkel Germany was able to respond to the author's questions in this regard.

**SWEDEC (overall more standardised) - (2.5)**

Cameron, is the MNC partner in this IJV which holds a majority shareholding and controls management decisions. However, only until recently has an HR department been assigned. All HR decisions are made by the Managing Director.

**General Policies are a combination of local and standard (3)**

All policies and practices are received from Cameron Singapore and gradually adjusted to the local market conditions.

**Recruitment & Selection is a combination of local and standard (3)**

Recruitment and selection was more standard to start with, then became more local over time as the company realised it was not finding the calibre of people the job descriptions set out to select.

<b>Training &amp; Development is more standardised (2)</b>
There is a fair policy on training but there is mainly technical training conducted overseas. Other forms of English and computer skills are conducted locally. A great deal of investment goes into technical training and staff are sent sometimes for several months at a time to train overseas in different facilities and then return to apply their learning in their jobs in Iran.
<b>Remuneration is more standardised but with some local input (2/3)</b>
There is a simple grading system which initially came from Cameron Singapore. It can be improved and needs more structure. The remuneration system does take performance into account. The local partner has helped a lot in localising the remuneration system and helping the MNC better understand the Iranian psychology and labour laws when it comes to remuneration issues.
<b>Performance Appraisal is more standardised (2)</b>
Performance appraisals started once again through support from Cameron Singapore who sent manuals, forms and templates. Gradually over time and mistakes, SWEDEC has learnt to localise this more, it is an on-going process. There also is a career development plan for each person, but it is not followed up very well.
<b>Reasons</b>
SWEDEC receive all HR policies and practices from the Singapore subsidiary but over time have tried to localise these to meet Iranian local norms. Where in doubt they have asked their local partner who has greatly assisted them in better understanding the expectations of their Iranian colleagues.

<b>Arya Sasol (overall more standardised)</b>
ASPC is an IJV between the Iranian public sector and a private sector South African company. It is a 50-50% IJV and on a 2 year rotational management basis. There is an HR centre consisting of NPC (local partner) and Sasol (MNC partner) appointed persons. Sasol has not had too much experience of internationalisation or IJVs. The Iran experience was very trying for them. In other subsidiaries, they tend to apply global policies and practices but try to localise to local culture and needs. There is not best practice for them.
<b>General Policies are a combination of local and standard (3)</b>
The HR framework comes from Sasol's Centres of Excellence in HR. However these are localised to meet Iranian norms.
<b>Recruitment &amp; Selection is completely standardised (1)</b>
There was an aggressive recruitment and selection campaign to hire over 100 personnel. This was all Sasol championed and based on the Sasol competency framework. No assistance was sought from the Iranian partners, not even the joint HR centre.
<b>Training &amp; Development is more standardised (2)</b>
The policy focuses on competency and promotion based competencies. The majority of technical and management training is conducted in SA, however local training is provided on team building and understanding Sasol values. This training has been run throughout the ASPC offices in Tehran and on-site in southern Iran.
<b>Remuneration is completely localised (5)</b>
Remuneration is completely localised, Sasol is not happy with this and the biggest challenge is selling a transparent remuneration policy to their local partners.

<b>Performance Appraisal is not done as yet</b>
Performance appraisals are not yet done, if it was, it would be MNC
<b>Reasons</b>
There are major concerns and differences of opinions between Sasol and NPC. Sasol get HR policies and practices from their HR Centers of Excellence which are based on the Dave Ulrich model. But NPC does not accept or understand their concern in HRM. The problem here is more different view points on HR, until they agree or appoint only one committee, there will be a constant disconnect on HR issues in the IJV.

<b>Savola-Behshahr (overall completely localised)</b>
Savola is a relatively young regional MNC. Behshahr Industrial Corporation is an older company and a very well know company in Iran. Although Savola has an HR Academy in Saudi Arabia which is responsible for supporting Savola throughout the region with global HR policies and practices, in reality this does not happen.  It is also noteworthy, that this was the youngest IJV in the research study.
<b>General Policies are completely localised (5)</b>
At this moment, all policies and practices seemed local and managed by the Iranian partner, even though Savola had management control of the IJV for the first few years.
<b>Recruitment &amp; Selection is completely localised (5)</b>
The bigger problem is not being able to meet financial expectations, so because the salary expectation can not be matched, Savola-Behshahr lose talent and can not manage to hold on to their talent for too long. The view to talent is very short sighted and the Iranian partner and management can not see the benefit in development or growing someone, talent for them is only seen in qualifications and experience.
<b>Training &amp; Development is completely localised (5)</b>
Training and development is not at all structured.
<b>Remuneration is completely localised (5)</b>
Remuneration is completely managed by the Iranian partners who have a very public sector approach to remuneration. This means remuneration is based more on seniority and very non transparent.
<b>Performance Appraisal is not done as yet</b>
Not done.
<b>Reasons</b>
Although Savola wanted to manage this, it is all done by Behshahr, who have been doing it this way for the past 50 years and resist the change.

## Appendix VIII: Final Analysis (Findings from Stage 2, phase (c))

### Ranking of factors from different environments

	Macro									MNC					Micro									
	1	2	3	4	5	6	7	8	9	1	2	3	4	5	1	2	3	4	5	6	7	8	9	10
<b>PASH</b>	-	3	-	2	4	-	-	3	4	4	-	4	4	4	3	4	3	5	2	-	1	1	1	5
<b>Castrol</b>	-	-	-	4	4	-	-	-	-	5	-	5	-	-	5	-	4	-	-	-	-	4	-	-
<b>Behtotal</b>																								
<b>SEI</b>	1	3	2	3	4		1	1	5	5	4	4	3	2	5	3	3	4	3	2	1	1	3	5
<b>Henkel</b>				5																		3	1	5
<b>Cameron</b>																								
<b>Arya Sasol</b>	4	2	2	4	4	1	3	3	5	4	5	4	2	3	5	5	5	4	4	5	4	5	5	5
<b>Savola</b>	1	1	1	2	1	1	1	5	1	4	4	4	3	-	5	5	4	5	3	4	2	-	3	4
<b>Total points</b>	6	9	5	20	17	2	5	12	15	22	13	21	12	9	23	17	19	18	12	11	8	14	13	24
<b>Total ranking</b>	6	5	7	1	2	8	7	4	3	1	3	2	4	5	2	5	3	4	8	9	10	6	7	1
<b>Overall ranking</b>	16	14	17	5	8	18	17	12	9	3	11	4	12	14	2	7	6	7	12	13	15	10	11	1

### Individual factors within the three environments

<p><b>a. Macro environment in the country:</b></p> <ol style="list-style-type: none"> <li>1 Political situation</li> <li>2 Economic situation</li> <li>3 Social</li> <li>4 National culture differences</li> <li>5 Legal</li> <li>6 Technological</li> <li>7 The instability of the environment</li> <li>8 Management style of the local partner</li> <li>9 The development of HR (lack or progress) in the host country</li> </ol>	<p><b>b. The role and MNC policies:</b></p> <ol style="list-style-type: none"> <li>1 The general decision towards HRM in HQ</li> <li>2 The experience of forming IJVs in other countries</li> <li>3 The size of the MNC</li> <li>4 The geographic presence in region</li> <li>5 The MNC's approach to globalisation</li> </ol>	<p><b>c. The micro environment of the IJV:</b></p> <ol style="list-style-type: none"> <li>1 Ownership structure of the IJV</li> <li>2 Public or private local partner</li> <li>3 Trust</li> <li>4 Control of critical resources</li> <li>5 Organisational culture</li> <li>6 Perception of partners towards each other</li> <li>7 Size of partner companies</li> <li>8 Selection of partner companies</li> <li>9 Locality of JV</li> <li>10 Selection of Managing Director</li> </ol>
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By ranking (most counts to least) micro environment factors, respondents found:

1. The personality of the MD to have the highest influence in HR transferability
2. Then the ownership structure of the IJV
3. Then the issue of trust
4. Control of critical resources
5. Public or private local partner
6. Selection of partner companies
7. Locality of the IJV
8. Organisational culture
9. Perception of partners towards each other
10. Size of partner companies had the least influence on HR transferability

By ranking most important to least in MNC factors, respondents stated:

1. The general decision towards HRM from the MNC HQ had the highest influence on transferability of HRM
2. Then was the size of the MNC
3. Then the experience of forming IJVs in other countries
4. The geographic spread of the MNC and presence in the region
5. The approach to globalization was ranked lowest influence

By ranking macro environment factors, from most important to least, respondents found that:

1. National culture differences
2. Legal
3. Then the development of HR in the host country
4. Then the management style of the local partner/ host country
5. Then economic
6. Then political
7. Then social and the instability of the market
8. Finally technological had the least influence

By ranking the factors in all three environments, the following was found:

Selection of the Managing Director

Ownership structure of the IJV

The general decision towards HRM in HQ

The size of the MNC / National culture differences

Trust

Control of critical resources

Public or private local partner / Legal framework

Development of HR in host country

Selection of partner companies / Experience of forming IJVs in other countries

Locality of the IJV

Management style of host country / MNC's geographic presence in region / Organisational culture

Partners' perception of each other

Approach towards globalisation

Economic

Size of partner companies

Political situation

Instability of environment

Technological factors.

## Endnotes

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<sup>1</sup> See reference to author's published work: 1) Namazie, P. and Frame, P. (2007), "Development of HRM in Iran", in the Special Edition on HRM in the Middle East, *International Journal of Human Resources Management* (Francis and Taylor, January 2007). 2) Namazie, P. (2003), "Factors Affecting the Transferability of HRM Practices in Joint Ventures Based in Iran: Based on a Sample of 10 International-Iranian Joint Ventures", *Career Development International*, 8: (7), pp. 357-366. 3) Namazie and Tayeb (2006), "Human Resource Management in Iran", in *Managing Human Resources in the Middle East*, edited by Budhwar, P. and K. Mellahi (Routledge, 2006).

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<sup>2</sup> See <http://unstats.un.org/unsd/snaama/dnllist.asp>

<sup>3</sup> Other definitions; Geringer (1988) distinguishes a JV as that which involves two or more legally distinct organisations (the parents) who each actively participate in the decision-making activities of the jointly owned entity. Geringer and Hebert (1989) add that an IJV is when one parent is headquartered outside the venture's country of operation or if the IJV has a significant level of operation in more than one country.

<sup>4</sup> In 1998 there were 90 joint ventures and in 2001 there were over 140. Joint ventures are increasing gradually.

<sup>5</sup> The literature relating to Iran is dealt with in Chapter 4 on the Iranian context.

<sup>6</sup> First ratified as the Law for the Attraction and Protection of Foreign Investment (LAPFI) in 1955 with subsequent changes made in 2000 and more recently in 2002, and a change of the name to FIPPA.

<sup>7</sup> A scientific study conducted by Raffee and Eisele in 1994 shows how in Eastern Europe IJVs increased from 43 in 1980 in all the former USSR countries to over 50,000 in Hungary alone by 1983. In former Soviet countries, the number of cooperative ventures rose from 1200 in 1990 to 25,000 by the end of 1993. In addition, JVs in China rose from 188 IJVs in 1979 to more than 140,000 at the end of 1997 (Lu and Bjorkman, 1998).

<sup>8</sup> For a complete discussion of the importance of "loyalty of managers" in the creation of the Islamic regime, see Morad Saghafi, "The Theory of Religious Commitment: A Look at the Foundation of the Ideological Government" in *Goftogu*, Number 24, Summer 1999, pp 7 – 27.



