HR practices must work where they work

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When it comes to employee retention and turnover, multinational corporations face special challenges in their retention capacity.

Employee turnover and retention are particularly challenging for MNCs, since the strategies embraced by corporate headquarters may not always work in foreign subsidiaries. MNCs must not only devise home-country strategies but also establish context-specific methods and ensure flexibility across multiple subsidiaries.

In "The Configuration of Employee Retention Practices in Multinational Corporations' Foreign Subsidiaries," IESE Prof. Sebastian Reiche proposes a typology of retention practices and explains whether, how and when these practices apply to subsidiaries.

Although employees may always leave due to specific economic situations and alternative job opportunities, companies do have some power and a duty to control turnover, which will ultimately harm the company through workforce instability, higher recruitment and training costs, and weakened morale.

Responsive or preventive

Retention practices differ depending on the type of employee they target: relational employment contracts are more open-ended and long-term, while transactional contracts are more specific and short-term.

For both types of relationship, retention practices are bundled together in two main areas: responsive, concentrated on eliminating threats of short-term turnover; and preventive, aimed at reducing turnover over the long term.

Understanding these basics will ultimately reveal the concessions and changes that MNCs must make in their own practices.

Responsive retention practices in transactional relationships include pay and benefits, organizational-level profit sharing, performance-based awards, cafeteria-style compensation plans, office space allocation and reduction of role ambiguity. These are all short-term strategies that can be deployed in a limited time period.

Responsive practices differ significantly in relational employment relationships, since employees need longer-term incentives. Pay incentives can easily be offered by the competition, so companies instead resort to job design improvement, decision-making involvement, training and development programs, and development of firm-specific skills.

Preventive retention practices in both transactional and relational employment relationships have the luxury of time, and companies can rely first and foremost on in-depth selection processes to ensure a good job/employee fit.

In transactional employment relationships, additional practices can include appropriate performance feedback and network-building. In relational employment relationships, practices can include ongoing training, long-term career planning, a consideration of non-work interests, the development of an employee's firm-specific fit through socialization, nurturing of social ties, fair treatment, job security, and flexible, family-friendly work schedules.

Imposing HQ practices on subsidiaries

These practices have proven effective time and again, but the picture changes dramatically when MNCs? foreign subsidiaries are involved. These subsidiaries face additional challenges including large pay differences between expatriates and local employees, a glass ceiling for subsidiary employees' careers, language differences and differences in corporate culture between the headquarters and the subsidiary.

To mitigate these difficulties, MNCs must consider two main elements: home-country effects that reflect MNCs' motivation to apply certain retention practices, and host-country effects reflecting MNCs' ability to do so.

Forcing HQ practices onto a subsidiary is not always an effective strategy, since nations often have idiosyncratic business systems and customs. Retention practices in the U.K., for example, must by nature differ from those in Japan, simply by virtue of the vast differences between the two nations' cultures and institutions.

The responsive and preventive practices described previously will not always work as they do in the home country. They must be complemented by culture-specific practices and adapted as needed to fit new environments. MNCs must gain an awareness of both "context-generalizable practices that can be successfully transferred from the HQ, and context-specific practices that require local adaptation," notes the author.

Key issues to consider

MNCs can use the following observations as a framework for shaping their retention practices abroad.

First, managers must take account of the idiosyncrasies of the home country: Anglo-Saxon MNCs will likely transfer responsive retention practices or those based on transactional employment contracts, while European and Japanese MNCs will likely transfer preventive or relational contract-based retention practices.

Second, one must consider how local practices fit within the overall strategy of the MNC and to what degree practices can be generalized in certain contexts.

Third, subsidiaries need to show some flexibility toward incorporating specific practices. Obviously, the more open they are about applying a practice, the more effective it will be.

Fourth, the development of a retention-system needs to consider four additional factors: MNC structure, the uniqueness of the subsidiary country's national culture, the relationship between the subsidiary and HQ, and the subsidiary's power. All influence whether a subsidiary is likely to adopt context-generalizable or context-specific practices.

Finally, staff retention will be positively impacted by a strategic alignment of context-generalizable and context-specific practices in each subsidiary context.

Clearly, devising an employee-retention strategy involves much more than a one-size-fits-all set of practices, and blindly transferring home-country practices to foreign subsidiaries is ineffective at best. MNCs will benefit greatly from carefully choosing retention practices that fit their subsidiaries' unique and diverse needs. The more flexible MNCs are in applying their strategies, the more successful their subsidiaries will be in retaining valuable employees.