FOREIGN DIRECT INVESTMENTS IN ALBANIA
AND THE TRANSFER OF HUMAN RESOURCE MANAGEMENT PRACTICES
REVIEW AND HYPOTHESES DEVELOPMENT

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Abstract

Literature on the transfer of Human Resource Management (HRM) practices across countries is enriched because the increasing importance of Multinational Enterprises (MNC) in the world economy. In Albania, after the collapse of communism, the government has taken some improvement in the legislation so that to attract Foreign Direct Investments (FDI) flows. FDIs can be seen as a promoter of growth for the developing countries, and Albania can be classified as a developing country. The presence of MNCs that have their subsidiaries here and the transfer of HRM practices in Albania is the focus of this paper. The study can be classified as a descriptive research that gives an overview of FDIs in Albania, and a literature review summary that aims to identify the factors that affect the transfer of HRM practices from MNCs operating in Albania. However, future papers related to this research can be done in response to the hypothesis set up in this paper.

Keywords: FDI, Multinational Enterprises, Human Resource Management, Albania
INTRODUCTION

In the last decade, one of the most important features of globalization was the rapid growth of Foreign Direct Investment (FDI) flows. Multinational companies (MNC's) are engaged in FDIs in order to serve foreign markets or benefit from changes in production costs between countries. Foreign direct investment was cited as one of the main forms of occurrence of the phenomenon of globalization in the economy. In this context, the main role is played by the so-called multinational companies (MNC), an enterprise operating in several countries, but managed from one home country. Multinational companies can be defined as companies with operations spread over more than one country (Goldstein, 2001).

Second, the definition of multinational companies, there are recognized four categories of MNCs: a multinational, decentralized corporation with strong home country presence; a global, centralized corporation that acquires cost advantages through centralized production wherever cheaper resources are available; an international company that builds on the parent corporation’s technology or R&D; and a transnational enterprise that combines the previous three approaches.

MNCs, today, operate in different sectors of the economy, manufacturing industries, the mining industry, agriculture and the service sector (Eitman et al., 2004). The lack of a final definition on multinational companies makes it difficult to determine a precise number of them (Goldstein, 2001).

The multinational companies (MNCs) and other international organizations face the challenge to find “a new form” to manage HR worldwide. Human Resource Management (HRM) has become a significant factor in the management for organizational success, especially for MNCs. This is because the challenge of MNCs is managing across cultures and balancing opposing values and practices in such a ways as to create advantages from them.

Nowadays, in the era of globalization, organizations opt for their survival and have realized that this may depend on how effectively their human resources (HR) are managed and how they can implement HR practices on a global scale (Anakwe, 2002; Erez, 1994; Ryan, McFarland, Baron, & Page, 1999; Triandis, 1994).

Several studies are made in Albania for FDIs; the determinants of FDIs, the barriers and the factors that can stimulate the flows of FDIs; the sectors where FDIs are more concentrated; the role of politics to facilitate the flows of FDIs. But, there is no study that identifies the transfer of Human Resource Management (HRM) practices from MNCs that operate in our country. There are some findings that when HRM practices are transferred across countries, their
applicability and quality can change. So, these practices became different from MNCs home country to MNC’s subsidiaries in host countries (Fink & Holden, 2005).

According to several studies made in this field, the aim of this paper is mainly a literature review summary to identify the factors that can affect the transfer of HRM practices across countries. However, future papers in this area of research may consider and analyze in more detail the mentioned topic and particularly, must study concrete cases of the factors that impact this transfer of HRM practices from MNCs operating in Albania.

An Overview of Foreign Direct Investments (FDI) in Albania
Albania is a country with great potential to attract FDIs, which can greatly increase its opportunities for further development. FDIs constitute a very important element in providing a direct impact on economic growth. After the fall of the communist system, the Albanian government took measures in favor of foreign investment, by first reversing the 1976 law that banned any form of FDIs in Albania. The Albanian government allowed the establishment of joint ventures between Albanian and foreign companies. Thus, Albania with its rich natural sources and untapped domestic markets where competition was weak began to see interest from foreign investors (Dragusha, 2009).

Despite the efforts and measures taken by the Albanian government since 1990, Albania remains one of the countries that attract less foreign direct investment in the region, while it has an untapped tourism potential as well as natural and human resources.

After 2000s, the volume of foreign investments in Albania has increased but still remains lower than most of the Western Balkan countries. The reason for this level of FDIs is the lack of political and economic stability, the informal economy, insecurity and lack of infrastructure. But, there are some efforts taken from Albanian government in the improvement of the situation. The legal framework has been established to promote private sector investment, paying particular attention to FDIs. The most important law relating to FDIs is the law "On foreign investments" (No. 7764 date. 11.02.1993), whose goal is to provide a positive environment for foreign investors in Albania.

Dominant sector of FDIs in Albania has been and is the manufacturing sector. In general, the products are not consumed in the Albanian market, but exported abroad (Dragusha, 2009). It also highlights the main reasons investing in Albania that are low cost labor, a qualified workforce too, and favorable geographical position.

By country of origin, Italy and Greece maintain a dominant position in foreign direct investment in Albania. 51% of direct investment enterprises are foreign-owned by Italian firms and 24% foreign-owned by Greek ones (Dragusha, 2009).
In general, FDIs in Albania are concentrated in labor intensive sectors. This is a negative side of foreign investments in Albania as it leaves little space to benefit from technological opportunities that may bring FDIs. However in recent years there is an increase of FDI flows in terms of strategic sectors of the economy and mainly in the telecommunication sector.

**Determinants of Foreign Direct Investments (FDI) in Albania**

In addition to the measures taken to attract foreign direct investment in Albania, there are some very important factors or determinants that attract foreign investors in Albania:

- **Geographical position** of Albania, a long coastline and the vicinity with Greece and Italy; provides easy access to the Balkan countries, as well as in Western Europe.

- Albania is rich with **abundant natural resources**, which increase the attractiveness of Albania in the eyes of foreign investors, such as: minerals and water resources; oil and gas; electro-energy resources, tourism.

- **Improved infrastructure**; second ALBINVEST (Albanian Business and Investment Agency), the main priority for Albanian government has been the construction of a road network capable of being integrated in regional networks and creating facilities not only for domestic but also for international transporters. Albania inherited a very poor infrastructure from the former communist regime which was a serious obstacle to the development of the country and attraction of foreign investors.

- **The legal framework**; a favorable legal environment for investments. The implementation of regulatory reform to help improve the business climate and reducing the costs of doing business. The Government of Albania has played an important role on improving the business climate in Albania. Second Dragusha and Osmani, (2013), in order to increase FDIs, the Albanian government has developed a set of fiscal and legislative policies:
  - Reduction of the fiscal burden of social security contributions payable by employers from 20 percent to 15 percent ( on May 2009 ).
  - Introduction of a flat tax of 10% on personal income tax.
  - Tax exemption of dividends designated for investments.
  - Reduction of corporate tax from 20 to 10 percent ( on January 2008).
  - Importers of machinery and equipment are exempt from VAT if the machinery and equipment are used solely as part of their taxable economic activity.

- Characteristic of Albania in terms of **human resources** is that not only provides a low cost labor, but also one of the most qualified in the region. This is for several reasons; first, it is growing every day the number of students who complete high schools and universities. Second,
an advantage of the labor force in Albania is the recognition of foreign languages. Learning foreign languages begins since in the primary education (Dragusha, 2009).

LITERATURE REVIEW & RESEARCH FRAMEWORK
The Role of Human Resource Management (HRM)

The history of economic development and globalization has shown us that the area of HRM in organizations has experienced a transitory phase; it has gone through an insignificant status that held long ago to a strategic importance one throughout the years (Anakwe, 2002).

HRM concept is a fairly relative one that could very well be inexistent in some developing countries (Budhwar & Debrah, 2001). Tayeb (1995) determines that HRM is a western concept, a British-American cultural product that has penetrated in other parts of the world. The importance of HRM practices is that they contribute in the development of human capital and evolution of behaviors in demand.

It has already been accepted both in domestic and international markets that employees can be an important source of competitive advantage for corporations (Peteraf, 1993). Through applicability of HRM practices, such as: recruitment and selection process, effective compensation systems, training and development activities, job satisfaction and employment security, all these impact positively on the overall business and performance of a corporation. So, it has been found that if HRM is linked to the overall business of a company, it may enhance the performance of the company (Pfeffer, 1998).

The processes of human resource management in a local organization and multinational one essentially are the same, in the sense that all employers will have to select, make use and compensate employees that will accomplish all the tasks included with the job. What the difference is with HRM in a multinational company is the complexity that displays from the exposure to different other countries where the multinational companies operate.

Despite the general application of HRM theories, HRM practices vary across countries and depend on local culture and regulations. In any particular nation, HRM practices are built on the country’s historical, political and social differences (Tanure & Duarte, 2005). Tayeb (1998) argues that, as opposed to universal aspects, locally aspects of HRM are based on employees” work-related values and attitudes.

As a result of operating in different countries and employing people from different cultures and nationalities, MNC’s usually have some international activities that won’t be used in local companies such as: recruitment in other trades of employment, adaption to different practices of employment and the management of regulations and working conditions for the local, foreign or relocated employees (Hendry, 1994).
However, it has been noted that few organizations know how to manage HR effectively in a dynamic international environment because best practices in one context do not always translate to other contexts with differing socio-economic conditions and cultures (Chilton, 1993).

**Transfer of Human Resource Management (HRM) Practices**

Globalization has accelerated the transfer of not only product and services, but also corporate management practices across different cultures and countries. Particularly, the transfer of HRM practices has occurred mostly from developed to developing countries (Aycan, 2005).

A growing body of empirical research has found that HRM practices are not always a source of sustained competitive advantage unless they are aligned with cultural and other contextual factors arising from the global operating environment of MNCs (Ahmad & Schroeder, 2003). Another point of view more descriptive related to international HRM is presented from Teagarden and Von Glinow (1997) that argued that many HRM practices are specific to particular cultures and can't be generalized.

There is confusion when adopting the universal model of HRM “best practices” in other cultures, outside USA, since these “best practices” might not be the best ones when applied in another country with different culture and institutions (Aycan, 2005).

From the existing literatures on global HRM and its international and intercultural application there are some principal determinants being identified that affect the efficiency of HRM practices beyond the national boarders as well as the differentiation of these practices beyond different localities. These determinants are: national culture, institutional factors (such as the labor market and other regulations), workforce characteristics and the presence of foreign managers in MNC’s subsidiaries.

**National culture:** Most of the arguments toward the debate over convergence against divergence concentrate on the national culture case and its effects in the stability of human resource practices beyond national borders. An HRM system could be meaningful and effective in one culture and unsuccessful in another (Laurent, 1986).

A theory related to the interactions between the national culture and management of human resource practices suggests that the huge cultural difference between two countries will impact negatively in the transfer and acceptance of such practices from MNCs to its subsidiaries. While another theory proposes that when confronted with another big cultural difference, corporate will tend to be in accordance with the local customs of management (Gamble, 2003). One of the most important contributions in this debate is provided from the study of Sparrow et al. (1994), accomplished with CEO and HR managers from 12 different countries. It discovered that the effectiveness of the transfer of HRM practices from MNCs is
affected from the cultural differences between these countries. But despite this result, there were also practices such as recruitment, training etc where convergence displayed when these practices got transferred.

Based on their study, Beechler and Yang (1994) argued that there are three groups of factors that influence a company in whether it wants or can transfer HRM practices in its subsidiaries. First of all, these are factors related to the country of origin such as: the culture of MNC’s home country and the way it impacts the administrative inheritance and company’s philosophy. Secondly, factors related to the host country such as: the culture and distance from the MNC home country own culture, conditions of labor market and the industry’s regulations and practices. Thirdly, factors that relate with the companies themselves such as the degree the MNC subsidiaries are an integral part of the strategic plans of the MNC and the degree to which MNC is dependent on its subsidiaries to secure the needed resources.

So, we hypothesise that: “the transfer of HRM practices will be negatively affected by the differences between culture of MNC home country and host country.”

**Institutional factors:** It is vital for an evaluation of the degree of divergence or convergence to evaluate the influence the specific factors related to host countries. These factors include labor legislature, financial system, educational and training system, social welfare systems and the degree of organizational autonomy (Sparrow & Hiltrop, 1997). Institutional expectancies of a host country might have a direct effect over HR manager’s skills to apply international HRM practices such as the ongoing residues of socialism in China which are cited as a big inhibitor in the expansion of the global HRM within the country (Gamble, 2003).

So, we hypothesise that: “the transfer of HRM practices will be negatively affected by the local institutional factors.”

**Characteristics of the labor force:** Characteristics of the labor force such as: education and training level, labor force’s demographics and age might have an important role in the convergence of HRM practices. While labor force characteristics are not “pure” factors (in the sense that they are in general a product of national culture and institutional factors), the potential that they have to affect in decision making and application of global HRM practices in a national level is extensive.

So, we hypothesise that: “the transfer of HRM practices will be positively affected by an educated, trained and a young workforce in MNC’s subsidiaries.”
The presence of foreign managers: A critical factor in determining and executing global HRM practices in a national level is the presence of foreign managers in MNC subsidiaries. In reality, the presence of these managers have affected the increase in similarities of HRM practices between the MNC's subsidiaries and the MNC (Rosenzweig & Nohria, 1994), while encouraging a better respect toward the instructions set up from MNC. In addition to this, foreign managers have as well a communication role within the subsidiary in the host countries to transfer their knowledge and managerial skills toward these places, by directing the local employees toward a desirable work style (Gamble 2003).

So, we hypothesise that: “the transfer of HRM practices will be positively affected by the presence of foreign managers in MNC’s subsidiaries.”

CONCLUSIONS

Nowadays, in the era of globalization, most multinational companies (MNC) are engaged in foreign direct investments (FDI) in other countries, almost in developing ones. The benefits from such opportunities are associated with new challenges in managing the activities located in other nations and cultures.

In Albania, FDIs are seen as a promoter of economic growth. So, the Albanian government took some measures to improve the climate of doing business and to attract foreign companies in our country. The manufacture sector is where most of the foreign direct investment flows are concentrated, but, recently, the telecommunication sector, too, is catching foreign investor’s attention.

There are different determinants to attract FDIs in Albania, such as: geographical position; natural resources; a favorable legal framework for investments; a low labor cost and a qualified workforce. There are several studies about the FDIs in Albania, but there is an unexplored area on the transfer of human resource management (HRM) practices from MNCs operating here.

Human resources are a key advantage not only for domestic companies, but, also, for multinational ones, too. The challenge of managing the activities in MNC’s subsidiaries in different host countries is also related to the human resources management. It is a difficult decision to make on whether MNCs should transfer their HRM practices or should be better to adopt them to local environment of host countries where their subsidiaries operate.

Based on literature, there are different factors to be considered before the transfer of HRM practices from MNCs home country. Before entering in a new country, a new market and a new place the MNC has to evaluate the differences between the home and host county culture.
There are evidences as well, that the effectiveness of the transfer of HRM practices from MNCs is affected from cultural differences between these countries.

Other factors to impact the transfer of HRM practices are institutional ones, such as: labor legislature, financial system, educational and training system, social welfare systems and the degree of organizational autonomy; whereas characteristics of the labor force (another factor that can impact the transfer of HRM practices) can be seen as a product of both, national culture and institutional factors. The labor force can be part of decision making and application of global HRM practices in a national level.

The last factor mentioned is the presence of foreign managers and the impact they have on the transfer of HRM practices. They transfer knowledge and managerial skills to subsidiaries in host countries resulting in the increase of HRM practices similarities between MNC’s subsidiaries and the MNC. All these factors can be studied in future research papers to expand the literature on transfer of HRM practices from MNCs operating in Albania.

REFERENCES


