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A COMPARISON OF INTERNATIONAL HRM PRACTICES BY INDIAN AND EUROPEAN MNES: EVIDENCE FROM AFRICA

by

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A COMPARISON OF INTERNATIONAL HRM PRACTICES BY INDIAN AND EUROPEAN MNEs: EVIDENCE FROM AFRICA

Abstract

By comparing the HRM practices in Indian and European MNE subsidiaries located in four of the Southern African Development Community countries, this paper tests the relevance of the country of origin effect and analyses the strength of institutional and firm level influences. Examining data from 865 MNE subsidiaries obtained from the World Bank enterprise survey data, the paper finds that Indian MNEs have higher labour costs in relation to total sales than their European counterparts, that Indian MNEs make more use of temporary labour than their European counterparts, that Indian MNEs invest in less training than their European counterparts. No support is found for the hypothesis that Indian MNEs have a lower ratio of skilled workers in comparison to European-owned subsidiaries. The study shows that country of origin effects are weakened if they are not consistent with host country ideology and that as economies evolve so too do their expectations of HR policy and practices.

Introduction

The majority of the research on home and host country effects on international HRM practices of MNEs focuses on MNEs from developed economies (cf. Muller 1998; Ferner and Varul 2000; Ferner et al. 2005). Following the growth in the number and scale of operations of MNEs from emerging markets during the last decade (UNCTAD 2013), several scholars have focussed their attention on MNEs from emerging economies, mostly in or from Asia (cf. Gamble 2003; Farley et al. 2004; Thite, Wilkinson and Shah 2012). Despite this growing area of research, the body of knowledge on the influence of home country factors on HRM practices of emerging economy MNEs is still quite limited and requires further examination. While much attention has been focussed on Chinese investment in Africa (see Jackson, Louw and Zhao 2013) and the Chinese interest in the Africa's energy, mining and infrastructures (Horwitz 2012, 2013b), the African context "has been neglected by mainstream international management scholars" (Jackson 2013, p.15), and despite considerable progress made in the last decade (Kamoche et al. 2012), "remains relatively under-researched in the fields of management, organization studies, human resources and international business" (Kamoche 2011, p. 1).

This study examines the HRM practices of Indian MNEs and European MNEs operating within four countries (South-Africa, Botswana, Mauritius and Madagascar) that are part of the Southern African Development Community (SADC). The HR practices examined include remuneration, use of contingent labour, the recruitment of skilled labour as well as the emphasis placed on employee training. While these do not represent an exhaustive bundle of HR practices, the practices selected provide important insights into how the employment relationship is managed. These practices have been used in several other studies to evaluate HRM in MNEs (cf. Tregaskis and Brewster 2006; Edwards et al. 2010; Sahadev and Demirbag 2011; Demirbag et al. 2014).

While much of the research within SADC has focussed on investment from developed economies, scholars question whether the growing inward investment from China and India will simply "replicate the hegemonic tendencies of countries of the West" (Alcadipani et al. 2012, p.137), or create a greater shift towards an Asian-African model (Horwitz et al. 2002b, 2012, 2013b; Kamoche et al. 2012). Thus, a comparison between European and Indian firm investment within SADC is particularly meaningful as India is both geographically and psychologically "closer" to the SADC countries because of a common colonial heritage,

potentially challenging assumptions of the ‘hegemonic’ West. This paper makes an important contribution to this debate and is the first to use the country of origin effect (COE) to compare and contrast the HRM practices of subsidiaries of MNEs originating from both developing and developed countries investing in Africa. It provides a “convincing analytical context” (Ferner 1997, p. 19) within which to examine these differences as emerging market MNEs tend to have a smaller resource base and less international experience than MNEs from developed markets which in turn limits their capacity to transfer HRM practices across their subsidiaries (Thite et al. 2012; Demirbag et al. 2014). The study is timely given the remarkable increase in the inflow of foreign MNEs into Africa (Adjasi et al. 2012; Cleeve 2012; Nwankwo 2012) and a total inward FDI increase from \$2.4 billion in 1985 to \$50 billion in 2012 (UNCTAD 2013).

The paper is structured as follows: First, the extant literature on COEs on HRM practices of MNEs is reviewed, the African context of HRM is then discussed and key hypotheses are developed. An explanation of the research methods and data analysis techniques employed is then presented. This is followed by a presentation of the results and discussion of the findings. The theoretical and practitioner implications of the study are then discussed and avenues for further research proposed.

Country of Origin Effect and the African Context

The definition of the COE: “the extent to which the HRM at the subsidiary level resemble practices in the home country more so than practices of local firms” (Pudelko and Harzing 2007, p. 538), suggests that organisational decision making, leadership style and HRM practices pursued by MNEs are shaped by the nationality of the firm (Ferner 1997; Karamessini 2008; Almond 2011). The COE is influenced by the varieties of capitalism (VoC) approach which, according to Hall and Soskice (2001) distinguishes between two broad types of capitalism – liberal market economies (LME) and coordinated market economies (CME). Both of these are almost dichotomous in their approach to industrial relations, vocational training, corporate governance, inter-firm relations and employee competencies. LMEs are those whose “firm strategies are mediated by competitive markets” (Nattrass, 2013, p. 57), short term in nature with ‘hard’ HRM practices focused on limited employment protection – characteristic of North America and the United Kingdom. CMEs on the other hand, are those with coordinated and negotiated stakeholder relationships offering a long-term, developmental focus, including Germany, Japan and Sweden. While these broad

VoC categorisations do have intuitive appeal, scholars (Walker et al. 2014; Schmidt 2009) suggest that these broad definitions are somewhat crude and that there are differences between and within each VoC. Walker et al; (2014) highlight these complexities and distinguish further between Nordic Social Democratic, Continental Europe, and Transition VoC “types”. Their analysis revealed that no single HRM practice was identical across VoCs. Indeed, these differences may be amplified by shocks in the external market, and strong, CME type markets may embrace more LME characteristics in order to respond to growing insecurity and cost pressures. However, such pressures have not weakened the “soft” focus characteristic of CMEs, but rather these CME-type institutions have adapted their approaches to the external environment (Hayter et al. 2011). Further given the aftermath of the financial crisis, Rumelt (2008) argues that organisations should consider jettisoning their short-term LME orientations and instead, embrace more CME approaches. Thus, in this paper we refer to a European model that is characteristic of a CME approach to capitalism.

The COE is influenced by the home country’s VoC and idiosyncratic national business systems that define the rules, norms and structures at a national level (Gooderham Nordhaug and Ringdal 1999; Gamble 2003). The unique combination of national institutional factors and structures, such as the state, financial institutions, education and training systems, and labour market institutions will result in the creation of a unique national logic of actions (Sparrow and Hiltrop 1997). As a result, HRM practices of MNEs will be influenced by their home country national business systems and tend to exhibit distinctive internationalization paths (Ferner and Quintanilla 1998; Ngo et al. 1998; Gamble 2003).

Indian Approach to HRM

Tymon et al. (2010) and Khavul et al. (2010) indicate that the vestiges of British colonial rule still remain in India and the evolution of the Indian HRM function has mirrored that of Britain, shifting from an emphasis on personnel towards a more strategic HR role but with a greater emphasis on human resource development (Budhwar and Varma 2010). Cooke and Saini (2010) suggest that Indian managers mirror their Western counterparts in their selection of HRM practices that promote innovation in organisations, with practices including training and development, performance appraisals, staff suggestion schemes. However, HRM practices remain less formal and less structured than those of Britain (Budhwar 2009). This is

caused, in part, by the complexities of India's labour relations and the importance of caste, networks and political connections (Budhwar and Varma 2010). Indian firms tend to have high turnover rates and the demand of high skilled labour outstrips supply, increasing retention costs and creating a greater focus on the development of talent management programmes (Bhatnagar 2007, Cooke and Saini 2010, Stumpf, Doh and Tymon 2010).

Numerous studies investigate HR practices in Indian domestic firms (e.g. Saini and Budhwar 2008; Som 2007; Rao 2007), but only a few recent studies compare the HRM practices of Indian and foreign firms (cf. Budhwar and Khatri 2001; Khavul et al. 2011; Som 2012). Most of these studies highlight the strong influence of socio-cultural, political and economic factors on HRM policies and practices in Indian firms. These suggest that on many occasions HRM decisions such as promotion, reward or selection are made more on the basis of socio-political connections or familial relationships rather than competence. The personalised relationships manifested in Indian firms are influenced by the high collectivism and high power distance which favours personal and familial relationships over work outcomes (Budhwar and Khatri 2001, Tymon, et al. 2010). The hierarchical nature of Indian society might also contribute to the continuation of such practices as it is harder to challenge the authority of decision makers. More specifically, Indian investment in Africa continues to grow (Kamoche 2011; The Economist 2012) and, consistent with the COE, De Beule and Duanmu (2012) suggest that Indian MNEs tend to utilise informal ethnic networks and formally participate in local political activities in their African subsidiaries.

European Approach to HRM

International HRM practices in European firms tend to be rationalised and systematic through the use of structured systems and formal processes including the transparent scrutiny of job applications, formal interviews, specific performance appraisal and reward systems (Lawler et al. 1995). While Walker et al; (2014) highlight the differences between and within VoC within Europe, the role of the EU supra-national organisation seeks to establish common policies, regulations, and more uniform employment practice standards (Threlfall 2003). An example of this is the EU's Employment Directive of 2000 providing directives to eliminate religious, sexual and age discrimination in employment practices (Ferner et al. 2005). Similarly, the European Employment Strategy (EES) seeks to increase convergence in employment practices and related areas, by providing guidance on policy making, and setting up monitoring and evaluation mechanisms. Consequently, European firms have to comply

with more uniform employment practice standards and regulations. Marginson and Sisson (2004) labelled this phenomenon as the ‘Europeanization’ of industrial relations. According to Gooderham et al. (1999, p. 507) “through various mechanisms of coercion, normative regulations, and imitation, organizations sharing the same environment are believed to become structurally similar as they respond to like pressure; that is, they will demonstrate isomorphism.” Threlfall (2003) and Sahadev and Demirbag (2011) maintain that as a result of the increasing integration in the EU, major changes in the political and social domains have taken place in European countries. The convergence of employment policies and practices in Europe is such that even countries that are not part of the EU seem to be “adapting their legislation and practices to get them into a better position to be able eventually to join the EU” (Sahadev and Demirbag 2011, p. 396).

Several studies that have examined the COE on the HRM practices of European MNEs have treated European firms as a homogenous group. For instance, Yan (2003) found that the policies and practices of European firms were influenced by a relatively long-term approach to business, resulting in long-term relations with employees moderated by trust and loyalty. Sparrow and Hiltrop (1997, p. 201) argue that though “there is no such thing as a single European pattern of HRM, and marked differences exist between countries in terms of their practice. Nevertheless, as a composite group, European countries are sufficiently alike in their HRM to be distinguished from U.S. patterns.” Scholars have considered European MNEs as a discrete ‘type’, these include Harzing and Sorge (2012), Bomers and Peterson (1997), and Kop (1994). In the same vein, we also compare the international HRM practices of European and Indian firms operating in Africa and we consider European firms as a benchmark.

The African Context

Despite the strength of COEs, there is also a need to consider the institutions and business systems in which these MNE subsidiaries are located. These will influence the extent of cross-border transfer of HRM practices and policies. Prior studies have reported that MNEs from developed markets tend to implement practices characteristic of their own home markets in their African subsidiaries, without taking sufficient account of the local context (Kamoche et al. 2004; Horwitz 2009; Jackson et al. 2008; Jackson 2012). This is a managerial practice which may create conflict and frustration among employees (Ahiazu 1986), ultimately becoming detrimental to the development of indigenous local African-style

HRM practices (Anakwe 2002; Jackson, Amaeshi and Yavuz 2008; Nwankwo 2012). While there are difficulties identifying indigenous African HRM models (Kamoche 2000, 2002) several scholars acknowledge a common philosophical and cultural trait across the continent designated as “Ubuntu”; a form of communal humanism characterised by hierarchical and relational networks of mutual obligations and interdependency (Horwitz and Smith 1998; Kamoche et al. 2012; Horwitz 2013a), favouring collectivist and paternalistic practices over individualist and instrumentalist practices characteristic of MNEs from more developed countries (Horwitz and Smith 1998; Horwitz 2012, 2013b; Newenham-Kahindi 2013).

Though Africa has been experiencing a tremendous economic growth and increase in FDI over the last decade (Cleeve 2012; Elmawazini and Nwankwo 2012; Nwankwo 2012), most countries are still facing major infrastructural and human resource development challenges (Kamoche et al. 2004), which have the potential to hamper long-term growth and global competitiveness (Horwitz 2009). Labour market efficiency and competitiveness within SADC has been hampered by a combination of factors including: the poor perception of artisan and technical work, poor understanding of the available learning opportunities and a lack of specialist skills, flexible employment systems and structured rewards and benefits systems (Ibeh, Wilson and Chizema 2012; Shambare and Rugimbana 2012; Horwitz 2013a). Within this context, firms become more active in recruiting and retaining executives, professionals and skilled technical workers through salary incentives (Horwitz 2013a) and increase their investment in training and development (Wood et al. 2011; Bakuwa and Mamman 2012, 2013; Gomes et al. 2012, 2013; Amah and Ahiauzu 2013; Dibbens and Wood 2013; Kamoche and Newenham-Kahindi 2013). Yet, despite these improvements and the implementation of a range of supportive state policies, skill development has been slow to respond to the economic and social development needs of these countries (Horwitz and Jain 2011).

Scholars assert that many firms, instead of following this longer-term and more sustainable strategy, attempt to address the issue by resorting to shorter-term and more flexible work practices such as subcontracting, outsourcing and temporary work (Horwitz 2006; Horwitz et al. 2002a). Horwitz and Smith’s (1998) research findings show that these practices are more common among MNEs operating in Africa rather than in domestic firms. Yet, though these types of flexible work contracts might help mitigate the skills-gap in the short-term, in the long-term they tend to “create precarious labour market conditions with associated insecurity leading to a greater tendency to job-hop for better remuneration and benefits” (Horwitz

2013a, p. 2442), and subsequently to higher labour costs. Kamoche et al. (2004) suggest that in the case of MNEs this problem is exacerbated by the extensive reliance on expatriates. Therefore, MNEs must consider the various challenges that such a context may pose and implement suitable HRM practices and strategies (Horwitz 2009; Jackson et al. 2008; Jackson 2012).

Hypothesis Development

Labour Costs

Pay and performance practices differ according to MNE ownership nationality (Edwards et al. 2010). Easterby-Smith et al.'s (1995) findings provide strong evidence that pay and reward systems in UK and Chinese firms differed significantly due to the egalitarian legacy left by the former Soviet Union after WW2. Sparrow and Hiltrop (1997) suggest that national cultural values are associated with different reward systems through assumptions of social distance reflected in wage differentials between grades. In the same vein, Hofstede's (1980) notion of individualism versus collectivism may exert a strong influence as higher levels of individualism may result in more retention-oriented remuneration practices linking pay to performance (Ngo et al. 1998). Equally, MNEs from countries that are more collectivistic may resort to seniority-based compensation systems (Ngo et al. 1998). This, combined with the importance placed on socio-political relationships and the need to respond expediently to talent shortages (an issue encountered in the home country) could lead to short-term pay policies with less emphasis on linking actual pay to performance, thereby leading to higher labour costs as a percentage of sales-turnover compared to European firms.

Labour costs also depend on the strategies that MNEs pursue in responding to the need for flexibility and firms tend to resort to more flexible and temporary forms of employment in turbulent and competitive international environments (Brewster et al. 1997; Kalleberg 2000; De Cuyper et al. 2007). This trend has been exacerbated by the recent financial crisis as lower demand has forced companies to reduce the size of their labour force and resort to temporary labour. However, some have argued that national institutional regulatory and legislative factors have strongly contributed to the increase in more flexible forms of employment (Kalleberg 2000; Olsen and Kalleberg 2004; De Cuyper et al. 2007). Several scholars have observed the significant inverse relationship between stringent labour regulation to protect

permanent labour and the increase in temporary labour. Stringent labour legislation, originally devised to protect employees, often results in the opposite effect as firms resort to more flexible forms of employment in order to avoid the administrative complexity and costs normally associated with these laws (Connelly and Gallagher 2004; Bhandari and Heshmati 2005; Sahadev and Demirbag 2011). India has stringent laws against the retrenchment of workers. Until 1980 India was one of the most regulated labour markets in the world (Acharya 2006). A strong trade-union movement also creates a situation where it is almost impossible to retrench workers. This has naturally resulted in greater reliance on temporary workers or manufacturing outsourcing (Ramaswamy 1999; Unni and Rani 2008). Given the strong reliance on temporary workers among firms in India, it is reasonable to assume that when Indian firms establish subsidiaries there will be a strong tendency to rely heavily on temporary workers. Therefore we hypothesize that:

Hypothesis 1 - Indian firms incur higher labour cost as a percentage of sales turnover than European firms.

Hypothesis 2 – *Indian MNEs' subsidiaries will employ more temporary workers than their European counterparts.*

Recruitment of Skilled Labour

Variables used in the examination of national business systems and their effects include the recruitment of skilled/unskilled labour (Karamessini 2008; Sahadev and Demirbag 2010; Sahadev and Demirbag 2011). Examining HRM practices in Europe, Sahadev and Demirbag (2010) found that employment regulation set by the EU influenced the investment in a skilled labour force as a means of enhancing European firms' capabilities and international competitiveness. However, they agreed that EU policy acts more as a catalyst and that there is no strict regulation which produces or prevents the employment of unskilled workers. Therefore, the increase in the proportion of a skilled labour force has been incentivised through the introduction of technology and knowledge transfer across European countries, as well as through intensive investment in R&D (Sahadev and Demirbag 2011). As a result, European firms tend to employ a large proportion of skilled labour (Sahadev and Demirbag, 2011) and pay particular attention to specific skill traits using formal recruitment and selection procedures (Yan, 2003).

In comparison, Holtbrugge et al. (2010) argue that there are two important factors affecting the skilled/unskilled ratio in Indian firms. First, the fast growth rate of Indian MNEs makes it difficult to recruit sufficient skilled labour. Second, despite the increasing number of new graduates in India, approximately 2 per cent are regarded as suitable to work in MNEs (Budhwar, Luthar, and Bhatnagar 2006). This is due, in part, to the inadequacies of educational institutions and exacerbated by a high degree of in-group collectivism resulting in Indian firms utilising internal recruitment practices.

Some studies have indicated the advantages of internal over external recruitment in public and private firms in India (Budhwar and Boyne 2004), others assert that informal internal recruitment practices may be more subject to easy manipulation (Budhwar and Khatri 2001). However, since the main objective of personnel recruitment is to attract skilled candidates that best fit the firm's needs (Huo et al. 2002; Holtbrugge et al. 2010), we argue that in-group favouritism exercised during the recruitment and selection process may have the potential to hinder the firm's ability to select more skilled outsiders. This seems to be particularly important for fast growing Indian MNEs, who, like their European counterparts, may need to be able to make use of more standardised and systematic formal recruitment and selection procedures in order to attract more skilled employees. This discussion leads to the following hypothesis:

Hypothesis 3 - Indian MNEs' subsidiaries will have a lower ratio of skilled workers than their European counterparts.

Employee Training

The extant literature indicates that employee training is another key HRM area underpinning the growth and survival of MNEs (Aycan 2005; Edwards et al. 2010; Sahadev and Demirbag 2011; Mellahi et al. 2013). However, despite Edwards et al. (2010) claim that training practices are easily transferrable because they are not too entrenched in supportive institutions, most research findings corroborate the view that differences in training practices and policies are evident in different countries. For instance, Ngo et al. (1998) examined the IHRM practices between Western and Asian MNEs and found that subsidiaries of different national origins exhibited considerably different training and development practices. Yan's (2003) findings show that there are significant differences in training practices and systems of MNEs from different nationalities. Training practices tend to differ from country to country

because they are highly influenced by national cultural and institutional contingencies (Bae et al. 1998; Anakwe 2002; Aycan 2005).

Aycan (2005) asserts that the importance and levels of training in firms embedded in more individualistic and performance-oriented cultures differ from those of more collectivist cultures. Individualistic cultures may view training as a means to individual development and consequently organisational performance. Conversely, MNEs operating in more collectivist cultures may see training as a way to motivate employees and increase commitment and loyalty to the organisation over the long term (Tsang 1994; Bae et al. 1998; Wong et al. 2001). Ngo et al. (1998) indicate that it is the formalisation of HRM practices which differentiates Western and Asian MNEs. Western MNEs have more formalised HRM practices and provide more formal training than their Asian counterparts. This tends to be the case with European firms because of various institutional structures and systems (Sahadev and Demirbag 2011), and European firms tend to be embedded in higher performance-oriented cultures which require systematic training and development activities (Ngo et al. 1998). Indeed, through an examination of Indian firms operating in Ghana, Akorsu and Cooke (2011) suggest that labour standards (including HR policies) tend to be left to the discretion of the investing firm. These scholars argue that African host countries have not implemented strategies to shape MNC investment and that MNCs from emerging economies “are most unlikely to receive pressure in their home country to observe labour standards in their operations overseas” (Akorsu, et al. 2011, p. 2746). Thus, the institutional pressures and systems within the home country will influence the nature and extent of training policy in the host country, leading to the following hypothesis:

Hypothesis 4 - *Indian MNEs’ subsidiaries will invest less in training activities than their European counterparts.*

Research Methods

Sample profile

The data was obtained from the enterprise surveys service sponsored by the World Bank (<http://www.enterprisesurveys.org/>). The Enterprise Survey is a firm-level survey of a representative sample of an economy's private sector. The survey covers a broad range of business environment topics including access to finance, corruption, infrastructure, crime,

competition, and performance measures and is conducted by private organisations employed by the World Bank. Respondents include business owners and entrepreneurs and, if required, accountants or human resources managers. The enterprise survey follows a stratified random sampling methodology with the strata defined in terms of size of the firm, business sector and geographic region within a country. The site for this study consists of the countries of Botswana, Madagascar, Mauritius and South Africa, each of which is a member of SADC and the data was collected during the period 2007-2010.

These countries do have some common characteristics. The Institutional Profile Database (2012) shows that, on the whole, these countries exhibit very similar levels of institutional development. With the exception of Madagascar that presents an overall level of 2.0 (which is below the average for this region), the other three countries present the highest levels of institutional development of the SADC with overall figures of 2.5 for South Africa and Mauritius, and 2.4 for Botswana. The level of trade liberalisation registered in these four countries (4.0) is considered as good and above the region's average. This is due to the participation of these countries in this regional integration economic block. In terms of the functioning of the political institutions, South Africa, Mauritius and Botswana record a level of development of 4.0, which is well above the average of the SADC community (2.6). The capacity for political authorities to make independent decisions through lobby and interests groups is moderate across all four countries (3.0). However, this is above the regional average. The same moderate level of transparency of economic policy (3.0) is registered by these countries, with the exception of South Africa registering a level below the average of the SADC community (2.0). In terms of labour markets and social relations, all four countries show a very similar level of institutional development with average level of 2.2 (2.1 for South Africa). Of particular significance is the very low level of vocational training provided (1.0) for all four countries. These countries also exhibit a similar moderate level of ethnic and religious discrimination (3.0) in the labour market (except Botswana which exhibits an overall level of 2.0) (Institutional Profile Database 2012).

Despite these common characteristics, it is important to note that differences do exist between SADC member countries and they exhibit divergent economic and social development which prevents a deeper level of integration (Qualmann 2000; Kumo 2011). The extent of these differences is not necessarily captured in reported statistics. Acemoglu and Robinson (2006, p.325) argue for a need to consider both “de jure” and “de facto” political power, the first

relates to the power allocated by political institutions and the second refers to the power of agents to engage in collective action and corrupt practices. These two sources of power help to explain why despite any attempt at harmonisation between SADC member countries, distinct differences remain. Thus, while a political regime may be displaced, their influence endures through their ability to engage in “de facto” political manoeuvres, therefore ensuring “the continuation of the previous set of economic institutions” (Acemoglu and Robinson, 2006, p.326).

Data collected by the Enterprise Survey is highly representative as it follows a stratified random sampling methodology. The systematic sampling procedure ensures greater representation compared to convenience sampling methodology or a simple random sampling methodology. The sample frame is derived from the universe of eligible firms obtained from the country’s statistical office or a master list of firms is obtained from other government agencies such as tax or business licensing authorities. Due to the prestige and resources of the World Bank, it is possible to construct a comprehensive sample frame.

Further, accuracy of the data is also high as the survey is carried out systematically by researchers with experience in data collection. Added to this, since the data collection process is carried out in cooperation with the local business organisations, the respondent firms can be expected to provide highly reliable data. The respondents are also promised full confidentiality, which encourages them to provide accurate information about their enterprises (<http://www.enterprisesurveys.org>). During the survey, interviewers are given strict instructions not to generate any interpretation bias by explaining the question inappropriately to the respondent. The interviewers are also required to record the general accuracy of the responses from each respondent.

The data was initially cleaned by deleting observations with very high outlier values of employee size or age. Since the focus of our study is to examine and compare the HRM policies and practices in Indian MNEs with those of European MNEs, we eliminated all other entries from our dataset. As a result of this selection procedure, we created a dataset of 865 MNE subsidiaries, which showed the nationality of the major owner to be either Indian or European. Most of the firms included in the analysis were from traditional sectors like food, chemicals, garments, metal fabrication, retail, wholesale etc. The country profile, mean age and mean size of the firms included in the analysis are shown in Table 1.

[Take in Table 1 here]

Control Variables

The COE (independent variable) is tested in relation to two main types of control variables: national host country institutional factors, and firm level factors. The host country institutional control variables are: a) Regulation obstacles, b) Socio-political factors, and c) HR related factors. This is in line with prior research on the COE suggesting that local host country institutional factors will require more or less adaptation of MNE's international HRM practices (Ferner 1997; Bae et al. 1998; Sahadev and Demirbag 2010; Sahadev and Demirbag 2011). The use of these institutional host country factors as control variables becomes particularly relevant for this study because the 'institutional distance' (Kostova 1999) and 'cultural distance' (Hofstede 1980) between home (Europe or India) and host countries' institutional regulatory and normative profiles (African SADC countries) seem to differ significantly. Using these host country institutional level control variables enables us to test the COE in HRM practices of MNE subsidiaries from regulated (European) and moderately regulated (India) countries within a less regulated context of African host markets. The COE must be tested against influential firm level factors (Budhwar and Khatri 2001; Aycan 2005; Thite et al. 2012) and these include the following firm level variables: a) Size in terms of total number of employees; b) Sector and; c) Age of firm.

Country of origin features are likely to be influenced by industry level factors because industries that are more globalised may require more integrated practices, than more 'polycentric' industries, in which overseas subsidiaries may operate with higher levels of autonomy in order to better serve national markets (Rosenzweig and Nohria 1994; Ferner 1997; Gooderham et al. 1999). Similarly, Sahadev and Demirbag's (2011) study on the extent of convergence in HRM practices between firms from emerging and developed European markets, shows that the differences in the recruitment of skilled/unskilled labour were significantly influenced by sector. Thite et al. (2012) suggest that this is particularly important in the case of research on MNEs from emerging markets because firms from different industries tend to exhibit different traits. This view is corroborated by Contractor et al.'s (2007, p. 401) findings, showing that Indian MNEs in the service sector "tend to gain the positive benefits of internationalisation sooner than manufacturing companies." Bhandari and Heshmati's (2006) findings show that the incidents of temporary vs. permanent work in Indian firms varied across industries.

Ryan, McFarland and Shl (1999) assert that firm size might mitigate some of the effects of national cultural and institutional factors on organisational HRM practices. They argue that large organisations tend to develop internal organisational cultures that are able to transcend national cultures. Indeed, larger firms tend to have more formal standardised HRM practices (DiMaggio and Powell 1983; Gooderham et al. 1999). Aycan (2005) suggests that firms operating in collectivist national cultures prefer internal (rather than external) recruitment channels, and that smaller firms (rather than large) may rely more heavily on their internal labour market. Further, Aycan (2005) states that larger firms may be able to invest in more training and development activities than smaller, less resourced firms.

Subsidiary age was included as a control variable in prior studies and found to have an important influence on HRM practices (Holtbrugge, et al. 2010; Sahadev and Demirbag 2010, 2011). Subsidiary age appears to be important because “HRM practices are path-dependent; that is, the spectrum of alternatives at a given moment in time depends on the decisions made in the past” (Holtbrugge, et al. 2010, p. 449). Therefore, considering age when comparing the differences in HRM practices between Indian and European MNE subsidiaries is particularly relevant because, unlike their European counterparts, Indian MNEs are at the initial stages of their internationalisation process, and consequently tend to have significantly less international experience.

Variable measurement

The study considers four HR related variables: (i) the relative cost of labour which is the total cost of labour divided by the net sales of the firm (ii) the temporary worker ratio of the firm (iii) the skilled worker ratio and (iv) the percentage of full-time workers who were given training in the previous year. All the dependent variables were derived from the enterprise survey database.

The cost of labour was derived by dividing the total labour cost by total sales for the previous year. The temporary worker ratio was obtained by dividing the total number of full-time temporary employees by the total number of full time employees employed in the previous year. The skill ratio was calculated by dividing the number of skilled employees by the sum of skilled and unskilled employees. The training level is measured as the percentage of full-time employees who received training in the previous year. Respondent firms that failed to answer the questions were eliminated from the analysis.

The nationality of the main owner of the firm was selected as the independent variable. MNEs were divided into two categories: either 'Indian' or 'European'. The control variables used in the analysis include the age of the firm, measured in years, the size of the firm which was calculated as the natural logarithm of the total number of employees of the firm, the industrial sector in which the firms operate which was dummy coded into manufacturing, services and construction with construction as the base level. Three other control variables included in the analysis were (i) the perceived level of obstacles in recruiting and employing the appropriate type and number of employees – the HR obstacle; (ii) the perceived level of obstacle in doing business due to the regulatory environment factors –the regulatory obstacle, and (iii) the perceived level of obstacles in doing business due to the socio-political environment factors – the socio-political obstacle. The values for these three variables were calculated as factor scores from three different principal component factor analyses conducted across the full sample of observations.

The HR obstacle factor scores were derived from a principal component factor analysis on the answers given to two Likert scaled (five point) questions: (i) How much of an obstacle are labour regulations to the operations of this firm? (ii) How much of an obstacle is an inadequately educated workforce to your firm? The respondents provided answers on a five point scale anchored between 'no-obstacle' and 'very severe obstacle'.

The 'regulatory obstacle' factor scores were derived from a principal component factor analysis on the responses given to four questions: How much of an obstacle is: (i) Customs and trade regulations? (ii) Business licensing and permits? (iii) Tax rates? (iv) Tax administration? The answers to these questions were recorded on a five point scale anchored between 'no-obstacle' to 'very severe obstacle'.

The socio-political obstacle factor scores were extracted through a principal component factor analysis using three variables: (i) How much of an obstacle are crime, theft and disorder to this establishment? (ii) How much of an obstacle to the current operations is political instability (iii) How much of an obstacle to the current operations is corruption. Answers to these questions were also assessed through a five point Likert scale anchored between 'no-obstacle' to 'very-severe obstacle'.

The principal component factor analysis extracted a single important factor that explained more than 50% of the variation in all the three cases. This factor was used in the subsequent analysis. The list of variables used in the analysis is shown in Appendix-1.

The mean values of the dependent variables and their standard deviations across the four SADC countries are shown in Table 3. This provides an indication of the differences between the four countries in terms of the dependent variables considered in the analysis. The ANOVA test results are presented in Table 3. While there is considerable variation in the variables across the four countries, the variation is very low for skill level ratio.

[Take in Table 3 here]

Analysis

OLS regression was used to explore the hypothesised relationships, and was used instead of mean value comparisons in order to examine further the explanatory power of the country of origin effect. OLS regression analysis simultaneously assesses the impact of control variables on variations within the dependent variable. The country of origin of the main owner of the firm was included as a dummy variable with two values (Indian and European). The variance inflation factor (VIF) was less than 2 for all the variables included in the analysis except for sector dummy. This showed the lack of multicollinearity. The results of the regression are shown in Table 4

[Take in Table 4 here]

Impact on Cost of Labour (Model 1)

As can be seen from Table 4, the regression coefficient attached to the nationality of the owner is significant at $p < 0.05$ and has a positive value for India. Apart from the nationality of the owner, other control variables that are significant include the size of the firm, the perceived HR-obstacle, perceived socio-political obstacle as well as the sector in which the firm operates. The positive coefficient for Indian owned firms indicates that the cost of labour in Indian firms is higher than that of European firms. This is also seen from a comparison of the mean values for this variable across the two groups of firms. For Indian firms the mean value for the cost of labour is 0.236 while that for European firms it is 0.219. Thus Indian firms typically spend more on labour as a percentage of their sales turnover than European firms even after controlling for other possible influences. These findings provide support for H1.

Among the control variables, it can be seen that the size of the firm has a negative coefficient which indicates that as the size of the firm becomes smaller, the cost of labour as a percentage of sales turnover increases. Perceived HR obstacle has a positive significant value

while perceived socio-political obstacle has a negative significant value. Thus, firms which face significant obstacles in recruiting and managing labour generally incur higher labour cost. On the other hand firms which perceive higher levels of obstacles in the socio-political front like corruption, political instability etc. incur less labour costs. While the link between HR obstacles and the cost of labour is understandable the negative value of perceived socio-political impact is difficult to explain and needs to be further analysed in future research. The sector in which the firm operates is also significant, with both service sector firms and manufacturing sector firms showing a negative coefficient compared to construction sector firms. This shows that manufacturing and service sector firms have lower labour costs compared to construction sector firms.

Impact on Temporary worker Ratio (Model 2)

The impact of the owner's nationality on a firm's inclination to depend on temporary workers was assessed through regression analysis with the percentage of temporary workers employed in the firm as the dependent variable. The result of the regression analysis is presented in Model 2 in Table 4. The nationality of the owner is a significant factor in determining the percentage of temporary workers employed by the firm. The regression coefficient associated with the nationality of the owner is significant at $p < 0.05$. Apart from the nationality of the owner, the other significant variables are the size of the firm and the sector in which the firm operates. Indian owned firms also have a positive regression coefficient thereby suggesting that Indian firms have a higher temporary worker percentage than European firms. This is also confirmed in terms of the average percentage of temporary workers in the Indian and European firms operating in Africa. On average, 28% of the workers in Indian firms are temporary workers, in comparison to 16% in European firms. Other variables including the age of the firm, the perceived HR obstacles, perceived socio-political obstacles as well as the perceived regulatory obstacles do not have any impact on the temporary worker ratio. These findings provide support for H2.

Impact on skilled worker percentage (Model 3)

The regression analysis that assesses the impact of the owner's nationality on the skilled worker ratio is presented in Model 3 of Table 4. The model shows that the p-value attached to the nationality of the owner is not significant. Therefore the nationality of the owner does not significantly impact the percentage of skilled workers employed in the firm. This implies that there is no support for H3. However, the control variable of size was found to be significant

at $p < 0.1$ level and perceived HR obstacles were found to be statistically significant at $p < 0.05$ level. Due to missing values in the dataset, cases considered for this regression analysis only included firms from the manufacturing sector, the sector dummy was therefore found to be redundant and hence the impact of sector on skill level ratio could not be assessed. As the independent variable (owner nationality) in Table 4 is not significant, the sign of the independent variable cannot be interpreted.

Impact on training levels (Model 4)

Table 4 presents the results of the regression analysis which estimates the impact of the owner's nationality on the extent to which firms provide employees with training. The nationality of the owner significantly impacts the percentage of employees receiving training in a year, providing support for H4. The two control variables - size and the perceived socio-political obstacle - also impact training levels in a firm. The other control variables do not have any impact on the dependent variable.

The regression results also indicate that Indian firms have a negative coefficient, which suggests that Indian firms give much less training than European firms in Africa. The comparison of the mean values show that while only 7.5% of full-time employees in Indian firms receive training in a particular year, the corresponding value for European firms is 26%. The control variable size has a positive coefficient which implies that as the size of the firm increases, more employees receive training.

In summary, the analysis shows that while Indian owned and European owned firms differ significantly in terms of labour cost, the temporary worker ratio and the extent of employee training, there is no significant difference in terms of the percentage of skilled employees.

Discussion

Scholars question whether the growing inward investment in Africa will replicate predominant Western practice or whether there will be a shift towards an Asian-African model. This paper makes an important contribution to this debate and highlights the extent to which European practice appears more consistent with the economic and developmental needs of SADC. It is the first study to use the COE to compare and contrast the HRM practices of subsidiaries of MNEs originating from both developing and developed countries investing in Africa.

The findings of the study highlight one area of similarity between Indian and European MNEs. The analysis shows no significant difference between their employment of a skilled workforce. In this respect, the inability to employ skilled workers is a feature of the external labour market and it is important to consider the socio-economic context of African countries, more specifically the problems of unemployment, illiteracy, and the shortage of professional skills exacerbated through economic and political instability (Horwitz and Mellahi 2009; Ibeh, Wilson and Chizema 2012; Shambare and Rugimbana 2012). While there are no differences between Indian and European MNEs in this regard, there is a need to consider how these two types adapt their HRM strategies to cope with these difficulties in recruiting skilled labour and the extent to which they are prepared to develop these skills internally.

Indian MNEs and European MNEs operating in Africa differ across several dimensions of their respective HRM strategies. These differences provide some support for the COE. Indian firms investing in SADC are paying more towards their labour costs as a proportion of their turnover when compared to European firms, they rely more heavily on contingent labour than European MNEs and they engage in less training when compared to their European counterparts. The high labour costs experienced by Indian MNEs are aligned with the dependence on contingent labour – employees who are not indoctrinated may be less committed to the organisation and lack the organisational overview to solve complex problems and improve practice. Indeed, contingent labour tends to be precarious (Horwitz 2013a) and its temporary nature can lead to a loss of corporate memory, reducing learning curve effects and the ability to achieve scale efficiencies. Those firms striving for constant human resource renewal only place a greater strain on their HR systems boosting labour costs. The use of contingent labour also encourages job-hopping as employees seek better remuneration. This is, in part, due to the shortage of qualified labour within SADC and those with skills are able to command higher wages. As Horwitz (2013a, p. 2441) suggests “demand can be artificially inflated if organizations are unable to retain key skills”. The recruitment of contingent labour creates a vicious cycle and not only obviates the need for Indian firms to invest in training but, given the high labour cost, reduces the ability of Indian firms to afford further investment in their workforce.

In contrast, European firms pay less towards their labour costs as a percentage of sales, recruit fewer temporary workers and invest in more training. This suggests that European firms are able to recruit lower skilled employees and are able to develop them through a range of high performance oriented HR practices. More developed recruitment and selection

practices enable a better evaluation of employee potential. Way (2002) suggests that the development of employee skills motivates employees to apply their skills and enhances superior employee output. While such systems might be costly to introduce, they can produce a faster return on investment, minimise future costs through a reduction of labour turnover (Huselid 1995) and foster learning curve effects and the internalisation of organisational goals. This is a particularly useful strategy given the shortage of specialist and professional skills within sub-Saharan Africa (Horwitz and Mellahi 2009).

The COE provides a partial explanation of these findings. Within the Indian context, there is a growing awareness amongst Indian firms of the need for positive brand image and a commensurate focus on building innovative cultural practices consistent with a long-term developmental focus (Jain, Mathew and Bedi 2012). However, within the SADC context, there is little evidence of this long-term developmental focus. Skilled labour commands higher wages and employees are not always aware of the training that is available to them outside the organisation, Indian MNEs appear to be ‘capitalising’ on these tendencies and engaging in less training. Sen Gupta and Sett (2000) confirm that Indian HR practice will depend on market structure and in more oligopolistic settings, Indian MNEs will use wages and benefits as part of a competitive strategy, as suggested by this study. At home, Indian HR departments are embracing innovative reward systems (Som 2008), if HRM transfer is assumed, this may explain the higher labour costs in relation to sales. However, the key difference between domestic Indian practice and Indian practice in Africa is that these innovative pay systems within the domestic context are central to the Indian focus on “employee development, organization development and culture building” (Rao 20004, p. 291). This suggests that in the home country, Indian firms will focus on a bundle of suitable HR practices (Khatri and Budhwar 2002), however, Indian HR practice in Africa tends to be somewhat anorexic in nature.

The use of contingent labour is a predominant feature of Indian domestic practice and provides some evidence for the COE. Private sector firms in India are adept at seeking ways of avoiding government regulation (Venkata Ratnam 1998): a plethora of labour laws including 60 central labour laws and 150 state labour laws relating to working conditions, wages, industrial relations, and social security amongst others (Saini and Budhwar 2004). As a result, employment in the non-organised/informal sector in India is increasing. The use of contingent labour amongst Indian MNEs in SADC appears symptomatic of this response and consistent with the short-term flexibility practices which feature amongst firms located in

SADC (Horwitz, 2006). Until recently, temporary workers in Southern Africa were not entitled to the same rights as permanent workers and firms employing these temporary staff were not responsible for them if they were recruited through an employment agency (Du Toit 2012).

While COE helps to explain some of the features of Indian investment in SADC, it provides stronger support for European investment in SADC. The European model places an emphasis on cohesive and structured HRM approaches (Brewster, Mayrhofer and Morley 2004) that leverage capabilities through the deployment of best practice (Gooderham and Nordhaug 2010), hence the increased levels of training and less reliance on contingent labour. This is consistent with the need for greater learning opportunities which support new skills policies in some parts of SADC (Horwitz and Jain 2011), an industrial relations regulatory framework which remains strong and works to ensure a plurality of interests (Horwitz, Kamoche and Chew 2002) and will help to counter the growing migrancy and “flight of skilled labour” between African countries (Horwitz 2013a, p. 2442). This suggests a need to consider the ‘pull’ of the host country as well as the ‘push’ of the home country.

The findings cast doubt on the extent to which an Asian-African HRM model is evolving. While Indian MNEs may be able to develop distinctive cultures, they continue to create short-term expectations of high wages and high levels of exploitation within SADC (Venkata Ratnam 1998). Temporary employment opportunities may make use of unskilled labour surplus in the short run, but in the long-run it will only damage firm reputation and potential investment opportunities in the future. Through withholding the softer aspects of HRD, employees fail to develop skills that provide a competitive edge, this in turn limits the capacity for innovative job design, reduces the potential for employee commitment and increases employee turnover. It is difficult to envisage how such a strategy aligns with the SADC’s growing focus on skills surveys, training plans and the payment training levies. Despite the critique of the bureaucratic nature of the training levy and its inadvertent reinforcement of the divide between the formal and the informal economy (James 2009), the failure to adhere to the spirit of these regulations may determine the extent to which Indian MNEs are able to attract skilled labour in the future.

Instead, there appears a greater demand for European ‘style’ HR practices that are consistent with SADC needs and European MNEs will have fewer problems adapting to labour law changes, thus placing Indian MNEs at a distinct disadvantage when competing for the same

pool of talent. Given the increasing levels of inward FDI in SADC there is a need to differentiate MNEs through quality employment opportunities and African governments are increasingly interested in creating jobs but also safeguarding worker rights. The study shows that as SADC countries evolve economically, so too do their expectations of HR policy and practices and while Western practices may appear ‘hegemonic’, the European model appears consistent with the aims of SADC’s long term economic development.

Limitations and Future research

This study relied on secondary quantitative data from the World Bank enterprise survey. While this is a very useful source of data, there are a few issues that may potentially affect the generalisability of our results. The classification of EU firms into a CME “type” does not allow investigation into the more subtle differences between firms of differing nationalities. For example, although considered CMEs, Swedish firm will have different approaches to German firms and further research should provide a more nuanced analysis taking into account specific country differences. Equally, some of the information being sought is sensitive and responses may contain errors. The data set also contains missing values for several respondents across several variables. Similarly, there is also non-random selection in terms of who agrees to be interviewed and potential respondents might exclude themselves.

While the study combines data from four SADC countries, **there is a need for a more refined consideration of the differences between SADC countries that can be further explained through the different sources of personal and institutional power (Acemoglu and Robinson 2006) and it was not possible to capture the inter-country variation in the regression analysis.** In addition, the reliance upon secondary quantitative data only examines a subset of HR practices and it would be useful to collect primary data in order to understand the nature of HR bundles and their transfer from home to host country. Further research should differentiate between the investment activities of co-ordinated market economies and those of liberal market economies and should consider the corporate strategy of investment firms and how these shape HR practices. Within this it would also be useful to consider the ratio of local workers to expatriate workers as this will have an impact on the extent to which practices can be shaped by host country influences. The nature of the business, the degree of competition and the reasons for investment within the host country need to be considered as these dictate the ‘shape’ of HR practices. Given the increasing Chinese investment in Africa, it would be useful to compare the COEs of Chinese and Indian investment in SADC and

examine the extent to which these practices have been shaped by local contexts and national policy.

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Table 1: Country Profile, Mean Age and Mean Size of the Sample Firms

	Total number of Firms	Indian Firms	European Firms	Mean Age of Firms (years)	Mean size (no. of full time employees)
Botswana	50	28	22	20.44	71.12
Madagascar	143	42	101	23.30	127.57
Mauritius	147	92	55	25.28	82.75
South Africa	525	111	414	24.60	117.11
Total (sample)	865	273	592	24.26	110.34

Table 2: Mean Values of Indian and European Firms

	Indian Firms	European Firms
Size of the firm (no. of full time employees)	52.7	136.91
Age of The firm (years)	21.3	25.59
No. of Manufacturing firms	132	386
No. of Service sector firms	136	187
No. of construction sector firms	5	19
Cost of Labour	0.236	0.219
Temporary Worker Ratio	28%	16%
Skill Level ratio	0.642	0.654
Percentage of Employees Trained	7.5%	26%

Table 3: Mean and Standard Deviation of Dependent Variables

		Cost of Labour	Temporary worker ratio	Skill Level	Employee training
Botswana	Mean	0.1342	0.1070	0.6092	53.33
	Std. Deviation	0.15226	0.16742	0.31151	38.649
Madagascar	Mean	0.1789	0.2694	0.6829	38.00
	Std. Deviation	0.18245	1.33402	0.38858	39.319
Mauritius	Mean	0.2567	0.4428	0.6115	49.50
	Std. Deviation	0.22787	2.57841	0.31727	38.384
South Africa	Mean	0.2316	0.1188	0.6548	67.69
	Std. Deviation	0.11364	.26586	0.32269	34.814
Total	Mean	0.2249	0.1988	0.6516	63.80
	Std. Deviation	0.15374	1.21823	0.33000	36.333
F-value		10.14***	2.91**	0.557	4.29***

p<0.05, *p<0.01

Table 4: Regression results

Variable name	Model 1 (Cost of Labour) (H1)		Model 2 (Temporary worker ratio) (H2)		Model 3 (Skill Level) (H3)		Model 4 (Employee training) (H4)	
	β	Std. Error	β	Std. Error	β	Std. Error	β	Std. Error
Country of Origin (INDIA)	0.024**	0.012	0.189**	0.095	-0.03	0.035	-10.745***	3.03
AGE	0.000	0.000	-0.002	0.002	0.00	0.001	0.107	0.075
LOG_SIZE	-0.009**	0.004	0.099**	0.035	-0.02 *	0.011	3.580***	1.12
SERVICES	-0.193***	0.034	-1.401***	0.263	-- ^o		5.697	15.31
MANUFACTURING	-0.127***	0.034	-1.563***	0.258	-- ^o		24.866	15.11
Host country-level controls								
HR - Related	0.015 **	0.007	-0.012	0.053	-0.11 ***	0.019	.521	1.70
REGULATION	-0.012	0.008	-0.090	0.061	0.02	0.025	-3.120	1.97
SOCIO-POLITICAL	-0.016**	0.007	0.087	0.054	0.02	0.024	-4.417**	2.25
Intercept	0.374***	0.039	1.319***	0.306	0.93 **	0.056	-13.301	15.78
F statistic	8.71**		6.3**		7.529**		16.152**	
R ²	0.084		0.049		0.086		0.169	

Notes:

*p<0.10, **p<0.05, ***p<0.01

^o Redundant due to missing values

Appendix1: List of Variables Used in the Study

Variable Name	Explanation
Dependent Variables	
Temporary worker ratio	Ratio of the total number of full-time temporary employees to the total number of full time employees employed in the previous year
Relative cost of labour	Ratio of the total cost of labour by the net sales of the firm in the previous year
Skilled worker ratio	Ratio of the number of skilled employees to the sum of skilled and unskilled employees
Training Level	percentage of full-time employees who received training in the previous year
Control Variables	
Age of the firm	No. of years since the firm started operation
Size of the firm	Natural Logarithm of the no. of employees in the firm
Industrial Sector	Manufacturing, services and construction
HR Obstacle	Principal factor value extracted from two likert scaled variables: (1) How much of an obstacle are labour regulations to the operations of this firm? (2) (2) How much of an obstacle is an inadequately educated workforce to your firm?
Regulatory Obstacle	Principal factor value extracted from four likert scaled variables: How much of an obstacle is: (1) Customs and trade regulations? (2) Business licensing and permits? (3) Tax rates? (4) Tax administration?
Socio-Political Obstacle	Principal factor value extracted from three likert scaled variables: (1) How much of an obstacle are crime, theft and disorder to this establishment? (2) How much of an obstacle to the current operations is political instability (3) How much of an obstacle to the current operations is corruption