



Global Management and Politics (GMAP)

MASTER THESIS

*Local Responsiveness in Human Resources (HR) Global Practices:
Strategic Adoption in Azerbaijan*

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1. Introduction

1.1 Background and context

The global economic environment is undergoing a significant transformation due to technological advancements, changes in organisational structures, evolving market dynamics, and the introduction of new regulatory frameworks. Today, a corporation cannot prosper and sustain its market position without implementing strategic planning and managing resources (Elrehail et al., 2020). In recent years, globalisation has increased significantly as the economies of many countries have become interconnected to facilitate international trade. This development has been enabled by technological advancements and improved connectivity. This increase also contributed to the increased competition in the national and foreign markets. Those have further encouraged organisations to hire and retain highly talented workers to establish a competitive edge.

Consequently, corporations are inevitably linked to the effectiveness of their human resources (HR), and the implementation of human resources management (HRM), which is the strategic approach to managing employees, would significantly enhance the firm's performance, including competitiveness, market share, revenue returns, and benefits (Anwar & Abdullah, 2021).

HRM has evolved from a 20th-century administrative necessity into a multifaceted strategic discipline. Where it once centred on the rigid management of labour to drive economic value, it now encompasses a much broader, more ethical scope. The shift from transactional duties like payroll to complex domains performance management and "total rewards" reflects a bigger change in how we view human capital. Modern systems are now tasked with aligning employee well-being and Corporate Social Responsibility (CSR) standards with the overarching goals of the firm. This evolution, highlighted by Rotich (2015), illustrates how HRM has been redefined by its responsiveness to global social and economic pressures.

A significant body of literature suggests that it is not the mere existence of HRM practices, but rather how employees perceive them, that dictates levels of organisational engagement and discretionary effort (Alfes et al., 2013). When HR initiatives are framed as a genuine investment in the workforce favouring well-being and career progression, they foster a robust sense of perceived organisational support. Crucially, Kismono et al. (2024) find that this perception serves as a catalyst for corporate citizenship, employees become far more likely to contribute to the firm's success in ways that transcend their formal contracts.

For Multi-National Corporations (MNCs), these dynamics are complicated by the demands of a globalised environment. Murphy (2023) posits that global HRM integration is a primary vehicle for gaining competitive advantage, yet the actual transfer of practices from headquarters to subsidiaries is rarely seamless. While MNCs must move products and technology across borders, transferring the "human" element of the business remains the most complicated. As Miao (2023) observes, this is especially true for firms venturing abroad for the first time, where the lack of international experience exacerbates the difficulty of global integration.

These challenges are often intensified by deep-seated tensions between a firm's native operating systems and the distinct social or cultural landscapes of its host countries. The ability to synthesise and transfer knowledge across multiple places is crucial for a company's core competitive advantage (Smale, 2008); nevertheless, the drive for global standardisation often meets obstacles. James and Baruti (2021) claim that institutional and cultural friction in host countries continues to be a substantial obstacle to adaptation, a phenomenon notably evident in the context of Azerbaijan.

Azerbaijan is a useful case for studying HRM misalignment because its organisations have developed in a transition economy influenced by both old systems and new reforms. Studies on HRM in Azerbaijan often highlight the lasting impact of post-Soviet management traditions, in which HR was mainly focused on administrative tasks, record-keeping, and rule-

following rather than on workforce development (Karimov & Babirzade, 2025; Gasimov & Gurbanov, 2013). Even though formal labour laws and HR policies are now common, research shows that these are not always put into practice. There is still a gap between official rules and what happens day to day. Many organisations still use informal hiring methods, have limited structured performance reviews, and lack strong training and career planning systems (Gasimov & Gurbanov, 2013; Alizada & Mammadova, 2024).

Differences between sectors also play a role. Research shows that public-sector organisations typically focus on stability, hierarchy, and adherence to procedures. In contrast, private-sector companies, especially those facing competition, are more interested in performance-based HR practices and innovation, though the extent and consistency of their application vary (Teymurlu, 2025). However, the use of digital and technology-based HR practices is still limited. Studies on information technology in HRM highlight potential improvements in effectiveness but also point to skill gaps, poor integration, and institutional barriers that make it difficult to adopt these tools (Guliyeva, Rzayeva, & Abdulova, 2020). Looking at the bigger picture, Azerbaijan's economy makes the HRM issue even more important. The country has benefited greatly from oil and gas, but new national strategies focus on diversifying the economy, increasing productivity, and building human capital for long-term growth beyond energy (World Bank, 2022). Local researchers also note that the quality of human capital and effective HRM are now key to organisations' competitiveness and growth, especially as they face challenges such as demographic changes, skill gaps, and the need for innovation (Pürhani et al., 2022; Abdulova, 2025). Overall, the evidence shows that HRM in Azerbaijan is caught between old ways of doing things and new strategic needs, making it an interesting place to examine why HR practices may not align with international standards.

The growing degree of global competition and swift technical advancement makes traditional sources of competitive advantage increasingly ineffective in the contemporary

economic landscape (Nastase et al., 2025). However, the recognition that HR may serve as an ongoing source of competitive advantage as a fundamental management asset for organisations has grown. As technological, physical, and financial resources become increasingly accessible to competitors, they can no longer provide a sustainable competitive advantage for companies. In contrast, HR retaining specialised knowledge, technology, and capabilities is valuable, rare, challenging to replicate, and closely integrated with organisational attributes, thereby serving as a persistent source of competitive advantage (Choo, 2024).

The Resource-Based View (RBV) has been a dominant perspective in strategic management for several decades. It addresses a central question: Why do particular organisations consistently outperform their competitors? RBV offers an in-depth investigation of the concept, incorporating recent advancements from a significant contributor to its evolution. It shows a contrast to Michael Porter's methodology by emphasising the company's competencies and capabilities instead of its market placement. Jay Barney has long been recognised as a prominent author in the literature on resource-based philosophy (Barney & Clark, 2007). Barney (1991) and Boxall (1996) argued that to support sustained competitive advantage, strategic resources should be valuable, rare, difficult to imitate and not easy to replace. The RBV claims that an organisation secures a competitive advantage by effectively developing human resources that enable faster acquisition and utilisation of information relative to its competitors (Gerhart & Feng, 2021).

This thesis applies the concept established by Greenwood and Miller (2010), perceiving organisational design as an integrated configuration rather than a collection of distinct roles within HR. For an MNC in Azerbaijan, this means that the HR function must achieve both "institutional fit" aligning with local standards for social legitimacy and "strategic fit" leveraging human capital as a rare resource per the RBV. This design with two

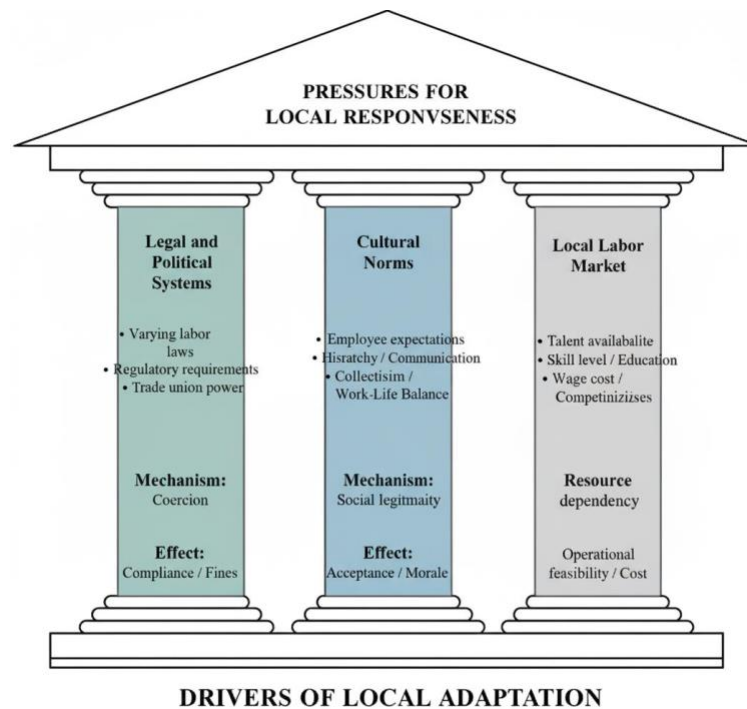
requirements makes sure that the organisation stays culturally acceptable in the host country while still staying ahead of the competition in the global market.

1.2 The global-local dilemma in HRM

The increasing number of MNCs is a principal driver of globalisation. Nevertheless, their continued success in a linked economic landscape depends on the continual enhancement of their competitive advantage (Westney, 2021). As these organisations expand their operations, a significant managerial debate arises concerning the internal duality of their practices: specifically, the tension between global integration and local responsiveness (Bartlett & Ghoshal, 1989; Pudelko & Harzing, 2008). Within HRM, global integration promotes the standardisation of policies to achieve organisational consistency, economies of scale, and effective transfer of corporate culture. In contrast, the need for local responsiveness, as articulated by Institutional Theory, requires subsidiaries to align their practices with the host country's distinct legal, cultural, and institutional frameworks to attain social legitimacy and operational effectiveness (Saka-Helmhout et al., 2015). These institutional pressures for local adaptation are typically categorised into three primary pillars, as illustrated in Figure 1.1 (See below):

- Legal and Political Systems: This pillar encompasses varying labour laws, regulatory requirements, and the influence of trade unions.
- Socio-Cultural Norms: This category reflects differences in employee expectations regarding hierarchy, communication styles, and levels of collectivism.
- Domestic Labour Market Conditions: This pillar includes the availability, cost, and skill sets specific to the local workforce (Dowling et al., 2019; Murphy, 2023).

Figure 1.1. *Institutional pressures for local adaptation*



Achieving a strategic fit between global integration and local responsiveness represents a fundamental challenge in International HRM. In emerging markets such as Azerbaijan, this challenge is especially pronounced, as the adoption of global standards frequently conflicts with entrenched institutional legacies. This theoretical tension constitutes the central focus of this thesis and establishes the context for analysing how organisations can progress from administrative compliance to strategic HR adoption.

1.3 Problem statement

In the realm of Strategic International HRM, a significant and persistent difficulty for both multinational and domestic firms is managing the tension between global standardisation and the complexity of local response. Although this fragile balance has been thoroughly examined in Western and Asian frameworks, a significant research and practical need remain in the growing economies of the South Caucasus, particularly in Azerbaijan. The fundamental issue is that Azerbaijani HRM models are mostly "compliance driven". This is because of fundamental historical and institutional legacies, not because they are strategic frameworks

that look to the future and use human capital as a competitive advantage. This state of institutional inertia does more than just stifle individual firms; it actively hampers broader organisational efficiency and slows the national drive toward economic diversification. Ultimately, it diminishes the strategic worth of the workforce in a globalised market (Griep et al., 2024). This thesis contributes by integrating this gap by synthesising two distinct theoretical lenses. Combining Institutional Theory, which demonstrates where existing misalignments come from, with the RBV, which demonstrates how to get a competitive edge, creates a new framework. This proposed paradigm seeks to go beyond simple administrative compliance, providing a framework for HR practices that are both internationally rigorous and locally relevant.

The uncertainty associated with this dilemma is especially pronounced in reward management. From a subsidiary standpoint, Festing and Tekieli (2018) note that “global alignment” fosters a sense of corporate belonging but frequently struggles when it disregards local motivational factors. In Azerbaijan, where seniority and personal trust typically prevail over standardised meritocracy, a localised "hybrid" strategy is needed for global awards to keep working at the subsidiary level.

1.4 Thesis objectives

The main objective of this thesis is to explore why HR practices in Azerbaijan often diverge from internationally recognised HR standards and to understand what this misalignment means for organisations operating in the country. To reach this aim, the thesis pursues several interconnected goals.

First, the thesis aims to examine the institutional factors that shape HRM practices in Azerbaijan, including historical, cultural, regulatory, and organisational influences.

Second, it seeks to analyse how these institutional characteristics create barriers to the adoption of international HRM standards, particularly in recruitment, training, performance management, and employee development.

Third, the thesis aims to review how the RBV conceptualises HR as a source of competitive advantage and to consider how this perspective highlights the potential benefits of aligning local HR practices with international expectations.

Fourth, it aims to compare the insights derived from Institutional Theory and RBV, in order to develop a clearer understanding of both the causes and consequences of HRM misalignment in Azerbaijan.

Finally, the thesis aims to reflect on the implications of these theoretical insights for organisations operating in Azerbaijan, particularly regarding improving HRM effectiveness and strengthening long-term competitiveness.

Since this is a conceptual thesis, these goals are met through a synthesis of earlier research based on theory, not through collecting new evidence.

1.5 Area of interest and analytical framework:

This thesis employs a conceptual-analytical approach to examine the strategic misalignment of HRM practices in the Azerbaijani context. Instead of using actual field data, the thesis creates a high-level synthesis of current academic literature, regional economic reports, and basic management ideas. This method enables a macro-level evaluation of the HR function in a transition economy, supported by the dual frameworks of Institutional Theory and the RBV.

The initial phase of this investigation breaks down the institutional inertia characteristic of Azerbaijani organisations. By analysing the interaction between post-Soviet administrative legacies and particular socio-cultural norms, as recorded by Gasimov & Gurbanov (2013) and Teymurlu (2025), this thesis highlights the systemic obstacles that prevent the implementation of international standards. These reasons clarify the tendency of local companies to favour superficial "box-ticking" compliance above the deeper development of personnel strategy when regarded as institutional pressures. In addition to this, the thesis applies the RBV framework to figure out how much of a strategic opportunity

cost exists for such misalignment. According to Pürhani et al. (2022), human capital is a "Valuable, Rare, Inimitable, and Non-substitutable" (VRIN) asset that is becoming more and more important for Azerbaijan's economy to diversify after oil. Combining both points of view gives the thesis a strong analytical foundation; it shows how the junction of local academic insights and global management trends may shed light on both the core reasons of HR stagnation and the urgent need for organisations to modernise.

1.6 Artificial intelligence (AI)-use disclaimer:

This thesis was composed with minimal assistance from AI tools. The author is still completely in charge of the thesis design, the argument, how they interpret sources, and all final editorial choices.

- ChatGPT 5.2 (OpenAI, web): used to check for clarity and consistency
- Gemini 1.5 Pro (Google, web): used to ideas for structure and outlining
- Grammarly Pro (for the web and desktop): used to checks for grammar, punctuation, and style
- QuillBot Premium (web): used to selectively rephrasing sentences

All ideas, analyses, and interpretations entirely belong to the author.

2. Literature review

2.1 Introduction to the literature review

This chapter reviews the main theories and research findings that help clarify why HR practices in Azerbaijan do not always align with international standards and what the consequences may be for local organisations. The discussion is organised around two well-known perspectives that are widely used in international HRM research: Institutional Theory and the RBV. Institutional Theory is used to explore why HR practices in a given national context develop in particular ways, whereas RBV is employed to show why bringing HR practices closer to global standards can strengthen organisational competitiveness. Taken

together, these two lenses provide a useful framework for analysing the current HRM landscape in Azerbaijan.

The chapter is divided into two major theoretical parts. Part A examines Institutional Theory and its relevance for understanding how national contexts shape HR practices, with a particular focus on Azerbaijan. Part B discusses the RBV and Strategic HRM, showing how HR practices contribute to competitive advantage and why misalignment matters.

The chapter concludes with an integrative summary connecting both perspectives.

Institutional Theory offers an effective way to understand why organisations behave as they do, especially when we look at them within a specific national setting. The key point is that organisations do not act in isolation; they are embedded in networks of rules, norms, cultural expectations and shared beliefs that shape their choices. A classic contribution in this field is DiMaggio and Powell's (1983) theory of institutional isomorphism, which argues that organisations tend to become more similar over time because they face three kinds of pressure: coercive, normative and mimetic. These pressures can push organisations to adopt certain practices even when they are not the most efficient, because conformity is often seen as the price of legitimacy, survival and acceptance. Within Azerbaijan, the pursuit of legitimacy is strongly influenced by a post-Soviet administrative tradition that emphasises formal documentation at the expense of strategic human capital development. Gasimov and Gurbanov (2013) found that many Azerbaijani firms see the HR function mainly in legal terms. As a result, they measure success by how well they follow labour laws and regulations, not by how much HR helps the organisation perform overall. This institutional compliance trap impedes the adoption of more flexible and contemporary HRM standards. Scott (1995) takes this argument further by distinguishing three main "pillars" of institutions: regulative systems, which include laws, policies and sanctions; normative systems, which cover professional standards and social expectations; and cognitive systems, which refer to shared understandings and taken-for-granted assumptions. These pillars illustrate the tendency of

organisations to implement HR practices that align with institutional expectations instead of prioritising performance outcomes.

In the Azerbaijani context, institutional mechanisms account for the continued misalignment of HR practices with international standards, despite formal regulatory reforms. Research on Azerbaijani organisations shows that administrative HR routines, informal hiring practices, and limited professional HR development are still common. These patterns reflect both current social expectations and long-standing ways of thinking (Gasimov & Gurbanov, 2013; Gurbanov, 2015). Additionally, inconsistent enforcement of labour regulations generates coercive pressures that emphasise formal compliance rather than strategic HR development (Alizada & Mammadova, 2024). Taken together, these factors illustrate the influence of institutional forces on HR practice beyond managerial intent.

Institutional Theory is now one of the main approaches used in international HRM. Extensive research demonstrates that HR systems vary considerably across countries due to differences in institutional environments. For instance, Björkman, Fey and Park (2007) find that subsidiaries of MNCs often adapt their HR practices to local norms and regulations, even when headquarters pushes for common global policies. In a similar vein, Chung (2018) argues that international HRM is shaped by a constant tension between the push for global integration and the need for local responsiveness, with institutional pressures heavily influencing how that tension is managed. Empirical studies repeatedly show that institutional environments affect recruitment, performance appraisal, pay systems and training. In countries with strong regulatory oversight, HR practices are more likely to be formalised and documented. Where informal networks play a larger role, HR often depends more on personal relationships and unwritten rules. Anderson (2017) explains that it is difficult to standardise HR practices across countries because local institutions have strong expectations that often resist outside “best practice” models, even when these models are popular.

In international HRM, one of the classic questions is whether MNCs should standardise their HR policies across all countries or adjust them to local realities. As noted above, this tension is known as the global-local dilemma. According to Pudelko and Harzing (2008), MNCs usually aim for a kind of “golden triangle,” where they try to combine corporate integration, sensitivity to local conditions and cost efficiency. On one hand, Edwards, Tregaskis, and McDonnell (2020) show that internal corporate pressures often push subsidiaries toward standardisation. For example, harmonising performance appraisal systems or talent management frameworks. On the other hand, local conditions frequently push in the opposite direction. Culture, local labour-market norms, legal requirements and informal expectations all create institutional pressures that encourage subsidiaries to adapt.

Schuler, Jackson and Tarique (2010) point out that global talent management systems lose their effectiveness when they conflict with local expectations. If employees see imported HR models as unfair, unrealistic or culturally out of touch, they are unlikely to react positively to them, even when the systems are technically well designed.

Festing and Tekieli (2018) provide important empirical insight into the global–local tension by examining global reward management from a subsidiary perspective. Their study shows that HR practices are rarely transferred unchanged from headquarters to subsidiaries. Instead, subsidiaries actively interpret and adjust HR policies to accommodate national institutions, cultural expectations, and local labour market conditions, even when headquarters promote strong global alignment. This adaptive behaviour reflects a pragmatic effort to balance performance objectives with the need for local legitimacy.

Although Festing and Tekieli (2018) focus specifically on reward management, their findings are highly relevant to other HR domains, including performance appraisal, promotion, and career development. Their study demonstrates that localisation should not be interpreted as resistance to global standards, but rather as a rational response to institutional constraints within the host-country environment. In contexts where hierarchy, informal

relationships, and social norms shape organisational behaviour, rigid standardisation may reduce employee acceptance and weaken the effectiveness of HR systems. Applied to the Azerbaijani context, this perspective helps explain why both MNC subsidiaries and domestic firms tend to develop hybrid HR configurations that combine formal global practices with informal local adaptations. Institutional pressures encourage subsidiaries to soften or reinterpret global HR tools, while local firms may selectively adopt international practices without fully embedding them. As a result, HR transfer in Azerbaijan is more likely to produce hybrid outcomes than full standardisation, reinforcing the importance of context-sensitive approaches to HR system design (Festing & Tekieli, 2018; Pudelko & Harzing, 2008).

The idea of institutional distance, the extent to which the institutional environments of two countries differ, is central to understanding why transferring HRM practices can be difficult. Jain, Kulkarni and Schuler (2013) show that subsidiaries operating in countries with a large institutional gap from the home country struggle more to implement global HR models. The core issue is that practices which work well in one institutional setting may not fit another. Clark and Lengnick-Hall (2012) find that MNCs often struggle to transfer practices such as performance management or structured competency frameworks to countries where evaluation systems have historically been informal or hierarchical. In these cases, employees may resist personally confronting supervisors, or managers may be uncomfortable giving formal feedback. Similarly, Saka-Helmhout, Deeg, and Greenwood (2015) argue that the MNCs themselves sometimes become a site of institutional conflict, where headquarters-level expectations clash with local institutional norms. These tensions shape HRM configurations within subsidiaries and may result in hybrid practices that include elements from both systems.

In practice, professional norms and cultural expectations, such as the importance of personal trust, respect for hierarchy and hiring based on relationships, often carry more

weight in everyday decisions than formal HR policies. This fits with Scott's (1995) cognitive and normative pillars: over time, practices become embedded in shared understandings and social expectations, which makes institutional change slow and difficult. In Azerbaijan, the combined influence of coercive, normative, and mimetic pressures reinforces compliance-oriented and relationship-based HR routines as a means of maintaining organisational legitimacy, resulting in a gradual and uneven convergence with international standards. Institutional Theory accounts for the persistence of specific HR routines despite the availability of alternative best practices. However, it does not adequately address the potential losses organisations incur when HR systems remain underdeveloped. The RBV complements this perspective by emphasising how human capital and HR systems can serve as sources of sustained competitive advantage.

The RBV is one of the most influential theoretical frameworks in strategic management. While earlier strategy models largely emphasised external factors such as industry structure or competitive positioning, RBV shifted the focus inward, proposing that the roots of long-term success lie in the unique resources and capabilities that organisations possess. This perspective argues that firms outperform competitors not simply because they operate in attractive industries, but because they cultivate valuable internal strengths that are difficult for others to imitate. Among these internal strengths, human capital and HR systems have consistently emerged as one of the most strategically significant. The RBV establishes the theoretical foundation for the potential significance of HR as a strategic asset for organisations (Wright et al., 1994).

The relevance of RBV to HRM is clear: if people are central to competitive advantage, then the practices used to recruit, develop, motivate, and retain them become critical for organisational success. In this sense, RBV offers a strong foundation for understanding why aligning HR practices with high-quality international standards is not merely a symbolic

gesture but an essential step toward enhancing competitiveness, especially in emerging markets such as Azerbaijan.

The contemporary understanding of the RBV is grounded in Barney's (1991) foundational framework, which asserts that sustained competitive advantage arises from resources that meet the VRIN criteria. Subsequent refinements by Barney (2001) and Barney and Clark (2007) extend this framework to HRM, contending that human capital, including skills, tacit knowledge, and social capital, is particularly well-suited to fulfil these criteria. As organisational culture and expertise evolve through path-dependency and social complexity over time, they become increasingly difficult for competitors to imitate or replace. This process positions the HR function as a central driver of long-term strategic advantage.

Wright, McMahan and McWilliams (1994) extend this logic by arguing that HR becomes a source of sustainable competitive advantage only when they are supported by HR systems designed for consistency and long-term development. In their view, the link between HR and strategy is not automatic, it depends on how HR practices are designed, aligned and implemented in practice.

Within the RBV framework, a strong focus is placed on the internal processes that turn individual talent into collective organisational capability. Boxall (1996, 1998) argues that competitive advantage does not come simply from hiring skilled people, but from building a "human capability advantage", a coherent set of HR practices that support learning, collaboration and high performance. In this view, employees' abilities need to be backed up by structures, incentives and opportunities that enable them to make a full contribution.

A number of empirical studies back up the RBV claim that effective HRM is closely linked to better organisational outcomes. Gerhart and Feng (2021) show that human capital can strengthen strategic decision-making and innovation when it is embedded in consistent HR systems. Hitt et al. (2001) find that firms in professional service industries benefit directly from high levels of human capital, which translate into improved performance. Kaur & Kaur

(2022) demonstrate that HR practices shape employee competencies and that these competencies, in turn, enhance firm performance. Chinyamurindi et al. (2021) report that HR strategies have a measurable impact on financial results, particularly in small and medium-sized enterprises. Fathima & Umarani (2023) highlight that fairness in HR practices significantly increases engineers' intention to stay, thereby contributing to organisational stability. Iqbal et al. (2023) add that when HRM practices are combined with strong knowledge-sharing cultures, firms are better able to develop their innovation capacity. Taken together, this body of work reinforces a central RBV insight: HRM should not be viewed merely as an administrative function, but as a strategic tool that shapes organisational performance over time.

Strategic HRM emerged by combining insights from RBV with principles from strategic planning. Strategic HRM focuses on aligning HR practices with the organisation's overall strategy so that human capital supports long-term goals rather than isolated operational needs.

In addition to traditional definitions of personnel management, scholars have established the foundations of Strategic HRM by highlighting various dimensions of organisational effectiveness. Wright and Snell (1998) highlight how important it is to align HRM systems, employee skills, and a company's strategic goals. Delery and Doty (1996) take a structural approach, suggesting universalistic, contingency, and configurational frameworks to explain differences in organisational performance. Becker and Huselid (1999) build on these ideas by introducing high-performance work systems, arguing that combining practices like selective hiring, thorough training, and incentive-based pay can improve organisational results. Collectively, these approaches indicate that HRM enhances organisational performance through internally coherent systems that are aligned with strategic objectives, rather than through isolated practices.

The Strategic HRM perspective aligns perfectly with RBV: it suggests that firms can deliberately create valuable, rare, and inimitable human resources through carefully designed HR practices. This requires coherence, consistency and investment, not mere compliance with administrative routines.

Overall, empirical evidence consistently points to a positive relationship between bundles of HR practices and organisational performance, although the strength of this relationship varies by context. In the area of recruitment and selection, Shammot (2014) finds that more structured recruitment processes and competency-based selection help firms strengthen their competitive advantage by attracting candidates with the right skills and cultural fit. In terms of training and development, Chen et al. (2021) report that firms which invest in HR development tend to build stronger intellectual capital and achieve better performance outcomes. Performance management is also critical: Choo (2024) shows that strategically designed appraisal systems support the implementation of corporate strategy by increasing clarity and accountability. Other work highlights the importance of employee attitudes. Alfes et al. (2013) demonstrate that how employees perceive HRM practices has a direct impact on their engagement, which in turn improves individual performance. Than et al. (2023) argue that HRM practices can enhance innovation by strengthening knowledge management capabilities inside organisations. Fathima & Umarani (2023) show that fair and transparent HR practices play a major role in retaining staff, especially in technical roles where skills are scarce. Krishnan et al. (2016) add that HR practices help shape organisational citizenship behaviours such as cooperation, initiative and willingness to go beyond formal job duties, which support overall effectiveness. Taken together, these studies point to a common conclusion: HRM influences organisational performance not through single, isolated practices, but through coherent systems that shape employees' skills, motivation and opportunities to contribute.

Emerging markets face a set of economic and institutional challenges that make the RBV particularly relevant. In many of these settings, firms cannot depend only on external conditions such as easy access to finance, advanced technology or a stable regulatory environment to be successful. Instead, their capacity to develop and retain HR becomes a core source of resilience and differentiation. Elrehail et al. (2020) show that in such contexts, organisations with stronger HR practices are better able to adapt, innovate and cope with volatility. Jimoh & Danlami (2011) report that Strategic HRM practices are positively associated with organisational performance in developing economies, particularly in manufacturing and service sectors. For countries like Azerbaijan, where institutional frameworks are still evolving and labour markets are in transition, the strategic development of HR is therefore even more critical. Firms must deal with shortages of specialised skills, rapid technological change and growing competition from MNCs. Under these conditions, the ability to build robust HR capabilities becomes a key source of competitive advantage.

Looking at Azerbaijan through the lens of the RBV brings out several key points:

1. HR misalignment slows down human capital development. When HR practices are inconsistent, outdated or loosely organised, firms find it hard to build the competencies that give them an edge (Barney, 2001). In Azerbaijan, the strong reliance on informal recruitment, limited training opportunities and seniority-based promotion narrows the chances for employees to develop valuable skills. While Azerbaijani employees possess high technical value, the lack of strategic HR systems means this talent is not embedded in the organisation. Consequently, it fails the inimitability test of the VRIN framework, making firms vulnerable to talent poaching by international competitors.
2. Weakly standardised HR systems limit organisational capability. If there is no clear framework for training, appraisal and development, employees receive feedback in an irregular way and have few structured opportunities to grow. This makes it more difficult for organisations to accumulate tacit knowledge and to learn collectively over time.

3. Retaining talent becomes a challenge. RBV emphasises that keeping skilled employees is crucial for sustaining competitive advantage. In the Azerbaijani context, however, restricted career paths and the absence of transparent performance systems may encourage qualified staff to move either abroad or into MNCs that offer clearer development prospects.

4. Lasting advantage is hard to achieve without strong HR systems. Even when firms benefit from natural resources or a favourable market position, RBV suggests that these advantages are temporary if they are not supported by robust internal capabilities. Without HR systems that foster innovation, adaptability and long-term performance, it is difficult to maintain a competitive lead.

5. Alignment with international standards has strategic value. International HRM practices such as competency-based recruitment, structured performance management and transparent reward systems are not just external “templates.” They are mechanisms for building human capital that have VRIN characteristics. For Azerbaijani firms, moving closer to these standards offers a practical route to strengthening their competitive position.

Although the RBV suggests that human capital can provide a sustained competitive advantage, institutional pressures in Azerbaijan, such as reliance on informal networks and strict administrative compliance, hinder talent from meeting the VRIN criteria. As a result, talent in the Azerbaijani labour market is often “Valuable” but seldom “Inimitable”, since insufficient strategic HR development allows competitors or international firms to substitute it readily. Therefore, institutional misalignment strategically undermines the firm's long-term competitive potential.

Institutional Theory and the RBV are frequently utilised separately in HRM research, however, new findings indicate that their integrated application provides a more comprehensive understanding of organisational behaviour and performance results. Greenwood and Miller (2010) claim that organisational design decisions cannot be comprehensively comprehended without acknowledging the institutional frameworks in

which enterprises function. From this approach, structures and practices are not chosen exclusively for efficiency, rather, they are influenced by historically established norms, regulatory expectations, and legitimacy concerns that limit managerial discretion. Institutional Theory clarifies the rationale for organisations implementing HR systems that emphasise administrative compliance, social acceptance, or adherence to prevailing norms, despite these systems being inefficient in terms of performance. In institutional settings marked by pronounced path dependency and informal social norms, HR practices frequently develop in alignment with established organisational templates rather than strategic objectives. This finding is especially pertinent in environments like Azerbaijan, where historical administrative legacies and culturally embedded norms remain in shaping the design and implementation of HR activities.

The RBV enhances this institutional explanation by redirecting the analytical emphasis from the reasons for the emergence of certain HR systems to the strategic outcomes generated by those systems. From an RBV standpoint, HR systems are pivotal in determining the degree to which human capital serves as a source of enduring competitive advantage. The design of HR procedures directly influences the transformation of employee knowledge, skills, and relationships into resources that are valuable, rare, challenging to replicate, and irreplaceable (Barney, 1991). HR systems that focus on organised growth, career routes within the company, and ways to keep knowledge are more likely to keep human capital in the company and keep it from being taken by outsiders.

When these two points of view are put together, HR misalignment can be seen as the result of design choices that are limited by institutions and have big strategic implications. In Azerbaijan, institutional pressures may lead companies to keep traditional HR structures that focus on compliance. On the other hand, the lack of HR systems that focus on strategy makes it harder for companies to turn their employees into a VRIN resource. This integrated approach underscores that institutional legitimacy and competitive advantage are not mutually

exclusive; rather, they frequently exist in tension, forcing organisations to reconcile compliance with capability growth. This thesis employs a dual-lens approach, utilising Institutional Theory to elucidate HR system design and RBV to evaluate its strategic consequences, making it particularly effective for assessing HR misalignment in emerging nations.

2.2 Integrative summary of the literature review

Institutional Theory and the RBV offer a complementary, dual-lens framework for analysing the HRM landscape in Azerbaijan. From an institutional perspective, HR practices in the country are influenced by the interaction of regulative, normative, and cultural-cognitive pillars (Scott, 1995). In Azerbaijan, these pillars are evident in a persistent administrative tradition shaped by historical post-Soviet legacies and entrenched informal networks (Gasimov & Gurbanov, 2013; Karimov, 2025). These institutional constraints account for the tendency of many organisations to prioritise social legitimacy through relationship-based hiring and hierarchical communication rather than strategic alignment. According to Teymurlu (2025), these practices are not simply managerial decisions but are embedded within societal expectations that frequently conflict with standardised international HR models. Institutional Theory thus explains the observed misalignment as a manifestation of institutional inertia, in which the pressure to adhere to local norms supersedes efforts toward global integration (Björkman et al., 2007).

In contrast, the RBV focuses on what happens as a result of these institutional patterns. It argues that companies can outperform their competitors by investing in VRIN HR (Barney, 1991; Wright et al., 1994). To do this, companies need HR practices that are consistent, strategic, and support learning, innovation, engagement, and long-term skill development. When HR systems are fragmented or outdated, as is often the case in Azerbaijan, organisations may miss opportunities to strengthen internal competencies, retain skilled employees or develop the knowledge base needed to compete in dynamic markets.

RBV, therefore highlights the strategic implications of HR misalignment. It is not merely an administrative inefficiency but a barrier to building sustainable organisational advantage. Together, these two theoretical perspectives form a coherent analytical framework (Boxall, 1996; Clark & Lengnick-Hall, 2012). Institutional Theory helps clarify why HR misalignment persists, even as the economy modernises, while RBV explains how this misalignment constrains organisational performance and reduces long-term competitiveness. When combined, they show that improving HRM in Azerbaijan requires both institutional sensitivity and strategic intent. Reforms must acknowledge the realities of the national context, yet they must also push organisations toward HR systems that support capability development, innovation, and sustained performance.

This review identifies a fundamental tension: Institutional Theory accounts for Azerbaijani firms' pursuit of 'legitimacy' through traditional compliance, whereas the RBV explains the resulting loss of 'competitiveness.' The subsequent discussion chapter will examine potential strategies to bridge this gap.

3. Discussion

3.1 Introduction

Chapter 1 set the foundation for this thesis by highlighting the misalignment between HR practices in Azerbaijan and widely accepted international standards. It also outlined the main objectives that guide this thesis. Chapter 2 then reviewed the two main theoretical perspectives used in this thesis, Institutional Theory and the RBV and showed how they help explain both the origins and the consequences of this misalignment. Building on these foundations, this chapter brings the two perspectives together to interpret why misalignment occurs in the Azerbaijani context, how it is sustained, and what strategic implications it has for organisations.

Rather than treating the Azerbaijani HRM landscape as a set of isolated weaknesses, this chapter interprets the observed patterns as the outcome of deeper institutional pressures

and strategic trade-offs. It also highlights how these conditions affect the development of human capital, a critical factor for competitiveness in the modern economy.

3.2 Institutional pressures and HRM misalignment in Azerbaijan

Institutional Theory provides a clear explanation for why local HR practices diverge from international “best practices”.

Azerbaijan’s HR environment is shaped by three intertwined institutional forces: historical legacies, cultural-social norms, and regulatory inconsistencies.

3.2.1 Historical legacies

A significant portion of the HR misalignment in Azerbaijan can be traced back to what institutional theorists call path dependency. This concept suggests that past administrative structures, specifically the rigid, centralised personnel models of the Soviet era, continue to dictate current organisational behaviour. In many local enterprises, HR is still viewed as a "personnel department" tasked with bureaucratic record-keeping rather than strategic growth (Gasimov & Gurbanov, 2013; Gurbanov, 2015). This historical anchor creates a form of institutional friction; even when leadership expresses a desire to modernise, the deeply embedded routines of the past make the transition to Strategic HRM feel risky or unnecessary (Scott, 1995). As Gasimov and Gurbanov (2013) suggest, these organisations often remain "stuck" in a compliance-oriented loop because the administrative traditions are more than just habits, they are the very foundation of the organisation's identity (Scott, 1995). For many Azerbaijani managers, the shift away from a “personnel department” mindset is not just a strategic choice, but a difficult cultural unlearning of decades of administrative tradition.

3.2.2 Cultural-social norms

Azerbaijan’s social context places a strong emphasis on interpersonal trust, respect for hierarchy, personal relationships and maintaining social harmony (Gurbanov, 2015). These cultural patterns shape HR practices in several ways:

- Recruitment is frequently channelled through personal contacts and recommendations, which reduces the use of formal, competency-based selection tools (Gasimov & Gurbanov, 2013; Gurbanov, 2015).
- Performance evaluation often avoids direct criticism, so western-style appraisal systems that require explicit feedback can feel uncomfortable for both managers and employees (Scott, 1995; Gurbanov, 2015).
- Promotion decisions may be influenced by seniority or personal loyalty, rather than by transparent, performance-based criteria (Gasimov & Gurbanov, 2013).

From an institutional perspective, these patterns are not managerial “mistakes”, they are culturally reinforced expectations (Scott, 1995). Employees and managers often behave in line with what seems socially appropriate, even when it conflicts with international HR standards (DiMaggio & Powell, 1983; Scott, 1995).

3.2.3 Regulatory inconsistencies

Although Azerbaijan has formal labour regulations in place, their enforcement differs considerably between sectors and organisations (Alizada & Mammadova, 2024). In some industries, companies follow formal HR procedures mainly to meet compliance requirements, while in others, supervision is weak and practices remain informal (Gasimov & Gurbanov, 2013; Alizada & Mammadova, 2024). This uneven enforcement tends to undermine the perceived value of structured HR systems. In this environment, organisations often face only weak external pressure to introduce more advanced HR practices, and as a result, they have little incentive to modernise their systems (DiMaggio & Powell, 1983; Scott, 1995).

3.3 The strategic cost

When the Azerbaijani workforce is evaluated through the lens of the RBV, a critical strategic gap becomes evident. For human capital to generate sustained competitive advantage, it must satisfy the VRIN criteria by being valuable, rare, difficult to imitate, and non-substitutable (Barney, 1991). While Azerbaijani talent can be considered valuable,

prevailing HR practices often limit its transformation into an inimitable resource (Boxall, 1996; Gasimov & Gurbanov, 2013). Reliance on ad-hoc training and relationship-based hiring prevents the development of firm-specific routines, learning systems, and socially complex capabilities that would embed knowledge within the organisation and make it difficult for competitors to replicate. At the same time, the absence of structured internal development encourages firms to rely on external hiring or replacement, increasing the substitutability of human capital (Barney, 1991; Boxall, 1996). High employee mobility and poaching further reflect weak mechanisms for retaining and appropriating the value of human capital rather than imitation itself. In the Azerbaijani context described in prior studies, this dynamic allows MNCs to capture talent developed locally, converting firm-level investment into external competitive advantage (Björkman et al., 2007; Pudelko & Harzing, 2008). As a result, HR misalignment transforms potential strategic resources into recurring labour costs rather than sources of sustained competitiveness.

One of the most complex challenges for managers in Azerbaijan can be described as a paradox of legitimacy. Under Institutional Theory, firms survive by gaining "social legitimacy", which in the local context often means respecting traditional hierarchies, informal networks, and personal loyalty. However, these same local norms frequently directly conflict with "strategic legitimacy," which requires merit-based promotion and transparent performance metrics (DiMaggio & Powell, 1983). Firms find themselves in a double bind: adopting global HR standards might make them more productive, but it could also alienate them from the local social fabric (Pudelko & Harzing, 2008; Björkman et al., 2007). This discussion posits that the current state of "misalignment" is not necessarily a sign of failure, but rather a deliberate choice to prioritise social legitimacy over strategic efficiency. This creates a paradox where staying culturally relevant within the local environment prevents the organisation from becoming internationally competitive (Scott, 1995).

Modern HR practices such as systematic training, structured feedback and transparent performance management are crucial for developing a skilled workforce. When these systems are weak or applied inconsistently, organisations find it challenging to build employees' expertise and adaptability to the level required in competitive markets (Barney, 1991; Kaur & Kaur, 2022). In practice, many firms in Azerbaijan then depend on employees to develop themselves, which produces uneven skill levels across the organisation and various operational inefficiencies (Gasimov & Gurbanov, 2013; Gurbanov, 2015). Due to limited investment in structured development, highly skilled workers in Azerbaijan are relatively rare (Alizada & Mammadova, 2024; Gasimov & Gurbanov, 2013). This scarcity increases turnover risk, as employees often migrate to multinational companies or abroad where HR systems better support career growth. The misalignment, therefore, undermines the "rarity" dimension of human capital: instead of cultivating unique internal expertise, firms lose their most capable employees (Barney, 1991; Wright et al., 2005).

A strong internal HR system helps create organisational memory, shared practices, tacit knowledge, and collaborative routines. When HR practices are fragmented, knowledge remains individual rather than organisational (Boxall, 1996). This weakens inimitability. Competitors can imitate products or strategies more easily when knowledge is not embedded in the workforce (Barney, 1991). When internal HR systems fail to develop competent staff, organisations are forced to rely more on external hiring or costly foreign consultants. This dependence weakens the RBV logic that HR should function as a non-substitutable strategic asset (Barney, 1991; Gerhart & Feng, 2021).

3.4 Addressing the "strategic drain"

The disconnect between local HR practices and global expectations can lead to what may be described as a "strategic drain" within the Azerbaijani labour market (Björkman et al., 2007; Pudelko & Harzing, 2008). As Azerbaijan moves toward a post-oil economy, highly skilled professionals, particularly those in the younger generation, increasingly seek out

MNCs operating in Azerbaijan (World Bank, 2022; Alizada & Mammadova, 2024). These workers are drawn to MNCs because they offer the meritocratic and developmental HR environments that local firms lack. This creates a cycle where local enterprises, by sticking to traditional administrative models, inadvertently push their most VRIN capable talent toward foreign competitors (Barney, 1991; Wright et al., 2005). This talent flight suggests that HR modernisation is no longer just a trend for Azerbaijani firms, but a survival mechanism to prevent the loss of their most critical assets (Barney, 1991; Gasimov & Gurbanov, 2013).

3.6 Summary of recommendations:

The recommended path forward is not a total westernisation, but a strategic hybridisation that maintains local cultural values while adopting international efficiency metrics (Pudelko & Harzing, 2008; Chung & Sparrow, 2024).

- **Breaking inertia:** Firms should introduce "low friction" modern tools, such as digital induction and transparent feedback loops, to signal a shift away from path dependency without triggering cultural resistance (Scott, 1995; DiMaggio & Powell, 1983).
- **Formalising the informal:** To achieve VRIN status, companies must turn informal relationship-based knowledge into formal mentorship programs. This converts "social capital" into an "inimitable organisational resource" (Barney, 1991; Wright et al., 1994).
- **Repositioning HR:** Leadership should rebrand HR from a compliance-focused cost centre to a driver of national economic diversification (Wright et al., 2005; Nastase et al., 2025). By aligning company goals with the state's vision, HR practitioners can leverage "Coercive Isomorphism" to encourage internal modernisation (DiMaggio & Powell, 1983; Scott, 1995).
- **Professionalising Norms:** Strengthening local HR bodies and encouraging international certifications (like SHRM or CIPD) will create a new "normative" pressure (DiMaggio & Powell, 1983; Ulfsdotter Eriksson, 2017). As these

certifications become the gold standard in Azerbaijan, the benchmark for what is considered a "legitimate" organisation will naturally evolve toward Strategic HRM (Scott, 1995; Anderson, 2017).

3.6.1 MNC subsidiaries

- These firms are usually under intense pressure from headquarters to use standardised HR policies and procedures (Björkman et al., 2007; Edwards et al., 2020). At the same time, they still have to respond to local expectations (Pudelko & Harzing, 2008). In practice, this often means that performance reviews are adjusted or “softened” so they fit local communication norms (Chung & Sparrow, 2024).
- Recruitment tools are adapted so that formal methods can coexist with the use of personal and professional networks (Björkman et al., 2007; Gurbanov, 2015).

As a result, many MNCs end up with hybrid HR systems that combine global structures with local ways of working (Pudelko & Harzing, 2008; Chung, 2018).

3.6.2 Azerbaijani local companies

Local firms vary depending on leadership mindset:

- Traditional firms often maintain historical HR models due to habit, cost considerations, or cultural alignment (Gasimov & Gurbanov, 2013; Gurbanov, 2015).
- Modernising firms invest in HRM because they seek competitive advantage and understand RBV principles implicitly, even if not formally (Barney, 1991; Wright et al., 2005).

The misalignment of HR practices has effects that go beyond individual organisations (Wright et al., 2005; Griep et al., 2024). At the macro level, it contributes to lower labour productivity, limits firms’ capacity to innovate, weakens knowledge transfer within and between companies, and can increase staff turnover and brain drain (Barney, 1991; Alizada & Mammadova, 2024). It also makes the country less attractive to foreign investors, who often look for reliable human capital and predictable management systems (World Bank, 2022;

Björkman et al., 2007). From a strategic standpoint, therefore, strengthening HR practices is not only an internal management issue for firms, but also a broader economic priority for Azerbaijan (Wright et al., 2005; Nastase et al., 2025).

Taken together, Institutional Theory and the RBV suggest that any attempt to modernise HR in Azerbaijan needs to follow a dual track: it should take existing institutional realities seriously, while gradually building stronger Strategic HR capabilities (Barney, 1991; Scott, 1995; Pudelko & Harzing, 2008).

1. Work with, not against, institutional realities.
2. HR reforms have a better chance of success when they are adapted to local norms rather than imposed as rigid foreign models. Sudden, radical changes that ignore cultural expectations and informal practices are unlikely to be adopted in a consistent way (Scott, 1995; DiMaggio & Powell, 1983).
3. Develop strategic HR capabilities step by step;
4. Organisations can introduce modern HR tools gradually, starting with practices that are easier to accept in the local context, for example, more structured training programmes, more transparent induction processes or modest improvements in performance feedback before moving to more demanding systems (Boxall, 1996; Wright et al., 2005).
5. Strengthen the professional identity of HR;
6. As more HR practitioners take part in international training, professional associations and certification programmes, the norms that guide what “good HR” looks like are likely to shift. Over time, this can increase the internal pressure to professionalise and standardise HR practices (Ulfsdotter Eriksson, 2017; Anderson, 2017).
7. Raise awareness of HR’s strategic role;
8. Senior managers need to move away from seeing HR as a purely administrative function. Instead, HR should be understood as a long-term investment in skills,

motivation and organisational learning, which are central to competitive advantage (Barney, 1991; Wright et al., 2005).

In this sense, a dual approach both respects Azerbaijan's institutional environment and pushes organisations, step by step, towards HR systems that are more supportive of productivity and international competitiveness.

Concluding Remark: The primary objective for Azerbaijani enterprises is to transition from "institutional survival" to strategic competitiveness (Scott, 1995; Barney, 1991). By recognising the country's distinctive administrative traditions and systematically applying the RBV, local firms can convert human capital into a sustainable driver of growth in the post-oil era (Barney, 1991; Gurbanov, 2015).

Conclusion

This thesis aimed to investigate the enduring gap between global HR norms and the reality of the Azerbaijani business environment. Utilising Institutional Theory and the RBV, the thesis demonstrates that HR misalignment in Azerbaijan constitutes more than mere administrative failure. It is a result of a deeply embedded path dependency, a survival mechanism in which organisations prioritise social legitimacy and historical continuity over the abstract metrics of global efficiency (Scott, 1995). The thesis has addressed its core objectives. It reveals that Azerbaijani companies have significant human capital, but they can't use it to gain a long-term competitive edge since they don't have "Inimitable" and "Rare" organisational systems (Barney, 1991).

The theoretical contribution is the identified "paradox of legitimacy": in transition economies like Azerbaijan, firms struggle between "looking right" locally (honouring hierarchy and trust) and "performing right" globally (meritocracy and standardisation). In practice, this thesis suggests that uncritically transplanting 'best practices' is unlikely to work without local adaptation. Instead, the path forward is strategic hybridisation. Organisations must find the 'middle ground': a space where global performance standards are

introduced not to erase Azerbaijani culture, but as an evolution that supports the nation's post-oil economic diversification.

While this thesis provides an integrative conceptual analysis of institutional pressures, it is not without limitations. The primary attention stayed on big companies and their subsidiaries in other countries. Future research should examine how small and medium firms (SMEs) in Azerbaijan, that are missing the resources of multinational corporations (MNCs), face these institutional pressures. Specifically, future studies could apply the Greenwood and Miller (2010) framework introduced in this study to determine whether smaller firms also adopt "holistic configurations" to balance legitimacy and efficiency or remain purely reactive to institutional forces due to resource constraints. Furthermore, a longitudinal study observing how the "unlearning" of Soviet-era administrative habits progresses over the next decade would provide invaluable insights into the speed of institutional change in the Caucasus.

In conclusion, the modernisation of HR in Azerbaijan is more than a corporate necessity; it is a national imperative. As the country moves away from oil dependency, the only truly sustainable resource remaining is its people. For Azerbaijani companies to transition from "institutional survival" to "strategic competitiveness", leadership must embrace a new philosophy of management, one that views the employee not as a bureaucratic entry in a ledger, but as a resource capable of driving innovation through the lens of the VRIN framework (Barney, 1991). The transformation will be slow and culturally challenging, but it is a strategically viable way to make sure that Azerbaijan's companies remain competitive with others around the world by successfully balancing local institutional legacies with global strategic imperatives (Scott, 1995; Greenwood & Miller, 2010).

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