

Explaining Similarities and Variation Across Borders in Control over Employment Practice in Multinationals: Subsidiary Functions, National Systems and Corporate Structures

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Background

Localising tendencies in employment practices can stem from national institutional constraints ...

... but also from the differentiation of subsidiary functions ...

... and from the influence of corporate structures

The paper investigates the relative influences of these three factors in accounting for variation in control over employment practice across borders in MNCs

Forms of Control

We address two types of control:

1. Output Control

Essentially the monitoring of employment outcomes, on both 'hard' and 'soft' issues

This 'influences the ends but allows organizational members flexibility in choosing the means'

2. Social Control

Includes management training and the management of career paths

These are ways in which HQs seek to instil a 'company way of doing things' and bring about the 'internalization of functional behaviour'

Subsidiary Function Effects

If MNCs are becoming more internationally integrated then there is increasing scope for subsidiary functions to be distinctive

We identify two concrete dimensions which influence the control exercised by the parent firm:

- the extent to which subsidiaries are inter-dependent on other subsidiaries within the MNC

Proposition 1: Intra-firm linkages in operational terms will be positively associated with output and social control

- the skill levels of the workforce

Proposition 2: 'soft' output control and both forms of social control will be positively associated with highly skilled subsidiaries; 'hard' output control will be negatively associated with these subsidiaries

Country Effects

A long history of comparative studies show the markedly different ways in which broadly the same IR phenomena operate across borders

In relation to MNCs, these local institutional factors are clearly in evidence

Proposition 3: Country effects will be in evidence – specifically, the Spanish subsidiaries will be subject to greater social control and less output control than those in Canada, Ireland and the UK

Corporate Structures and Style

Company structure shapes the ability of actors at the centre to exercise influence over the international operations, affecting the leverage of their 'organizational capabilities' in Chandler's (1990) terms.

There are grounds for anticipating that the structure of the international HR function is important in explaining variations in the level of central control and subsidiary autonomy.

A clearly understood corporate culture or philosophy can serve as a way of communicating to subsidiaries 'the way of doing things'

Proposition 4: Output and social control are more prevalent in MNCs which have a strong international dimension to their structure, particularly in the HR function, and a strong philosophy concerning the management of their international workforces

The Four Countries

UK, Spain, Canada and Ireland

All have substantial inward foreign direct investment (FDI);
outward FDI differentiates the countries

Three varieties of Anglo-American employment systems
and one continental European

They allow the benefits of a 'most similar research design'
to be balanced with greater degrees of difference

Research Design

The surveys shared many common aims:

- To be representative of MNCs in each economy
- Common size thresholds
- Unit of analysis being the national operations
- Senior HR manager/director as the main respondent
- Focus on four aspects of employment policy and practice (pay, training, employee involvement, consultation / representation)
- Distinction between managers and the LOG

Process and Outcomes

A comparative parallel approach – an alternative to fully integrated or post-hoc designs

The data were derived from questions that were:

- identical
- almost identical
- functional equivalent
- thematically equivalent

The surveys yielded a total of 1100 responses from MNCs operating in the UK (n=302), Ireland (n=260), Spain (n=330) and Canada (n=208)

Dependent Variables

Output Control

Survey asked about whether data on seven employment issues were collected by higher levels of management

Factor analysis produced two items, hard and soft

Social Control

Two issues: a global approach to management training; and globally standard competencies for assessing performance

Both items were 1 to 5 scales

Independent Variables

Subsidiary Function

Intra-firm linkages – trading relations between the subsidiary and others

Skill – use of SOC to categorise the largest occupational group

Host Country

A simple variable with Spain as the reference category

Structures and Style

Corporate Structure – the existence of global business functions

HR Structures – the existence of an international HR committee

Style – a global HR philosophy (on a 1 to 5 scale)

Controls

Sector, size, country of origin, size of local HR function

Results (1)

Intra-firm linkages had little influence on the DVs

Proposition 1 was rejected – suggests control does not vary systematically with the subsidiaries' position in the corporate network

Skill was significant in three of the four models

Subsidiaries in which high skill / professional are the LOG are more commonly subject to 'soft' output control and social control through management training, but less commonly subject to 'hard' output control

Proposition 2 was accepted – skill levels of the LOG are tapping into the differentiated functions of subsidiaries (albeit with a modest impact)

Results (2)

Host country was significant in all four models

Spanish subsidiaries are subject to less output control but more social control

Proposition 3 was accepted – the magnitude of the effects was large, confirming the important role for host countries even when we have measures of subsidiary functions

Structure and style were significant in all four models

Subsidiaries which are part of globally structured MNCs, with international HR structures and a globally standard philosophy on workforce management are more commonly subject to output control, while the latter two factors also positively influence social control

Proposition 4 was accepted – the magnitude of the effects was large

Conclusion

The contribution has been to develop and test a multi-factor model of control over employment issues in MNCs

At the beginning of the paper we argued that attempts to understand variation in control would be revealing concerning the extent to which patterns of integration and differentiation create an order or logic concerning the management of international operations

Of course, some of the differences between subsidiaries in terms of control will be due to the micro-political nature of this phenomenon (which is difficult to pick up in modelling of this sort)

But the significance of the models and the support for the majority of the hypotheses, the answer must be that there is a degree of order in this respect – patterns of integration and differentiation in the wider company and host country contexts both matter