Shaping the spatial logic of HRM in MNCs: a study of global and regional effects


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Complexity of geography

MNCs and spatial logic

Global vs local/integration vs localization

Recent research indicates that geography matters - a more realistic take on globalization is needed:

• Regionalization (regional trading blocs such as EU, NAFTA, ASEAN) (e.g. Rugman and Oh, 2012; Collinson and Rugman, 2008)

• Sub-national level (Almond, 2011, 2014)
Complexity of decision making

Purcell and Ahlstrand’s (1995) hierarchy of strategic decision making:

- First-order strategy (firm strategy, configuration)
- Second-order strategy (internal operating structures)
- Third-order strategy (functional organisation (e.g. HRM))

An integrated approach - upstream decision making influences downstream (Boxall and Purcell, 2011)

HR decision making can be broken down further (Brewster et al, 2005): HR policy, HR process, HR practice
Research objectives

Bring together the complexity of geography and the complexity of decision making to address two questions:

1) To what extent are MNCs adopting a regional rather than global logic to their first-, second- and third-order strategies (with a particular focus at the level of HRM)?

2) To what extent does the spatial logic of decision making at higher-order levels shape that of lower-order decision making within MNCs?
Why study the regional logic of decision making in MNCs?

At the level of first-order decision making it is hugely significant: Rugman (2005) study of the regional orientation of the top 500 companies

<table>
<thead>
<tr>
<th>Orientation of MNC economic activity</th>
<th>Definition of orientation</th>
<th>Number of MNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home-region oriented</td>
<td>At least 50% of revenues derived from the home region.</td>
<td>320</td>
</tr>
<tr>
<td>Bi-regional</td>
<td>20% of revenues derived from two regions including the home region but not more than 50% from any one region.</td>
<td>25</td>
</tr>
<tr>
<td>Host-region oriented</td>
<td>More than 50% of revenues derived from a host region.</td>
<td>11</td>
</tr>
<tr>
<td>Global</td>
<td>At least 20% of revenues derived from three regions but not more than 50% from any one region.</td>
<td>9</td>
</tr>
</tbody>
</table>

Ongoing research by Rugman and colleagues has continued to demonstrate the significance of the region (e.g. Oh and Rugman, 2014; Collinson and Rugman, 2008)
Why study the regional logic of decision making in MNCs?

At the level of second-order decision making research shows the regional level is also significant:

Regional internal operating structures are prevalent in MNCs:
- INTREPID surveys shows 73% of MNCs utilise regional structures (Edwards et al., 2007; Edwards et al., 2013)
- Enright (2005) shows how the use of regional management centres in MNCs is a way of managing complexity
Why study the regional logic of decision making in MNCs?

In spite of the obvious importance of a regional logic at higher-order levels of decision making, we know little about whether MNCs are adopting a regional logic to IHRM.

Literature tends to focus on the global-local debate in HRM:

For example:
- HRM – an area that is prone to local influence (Nohria and Rosenzweig, 1994) and home/host country effects (Edwards et al., 2005)
- HRM – an area that is prone to dominance effects (Pudelko and Harzing, 2007)
Why adopt a regional logic to HRM?

Regionally oriented first- and second-order strategies and structures may provide an incentive to develop different HRM policies in different regions (products and services, labour management are differentiated between regions (Edwards, 2011))

Specifically, EU level institutions may influence the development of regionally-oriented HRM (Marginson and Sisson, 2004)
Research methodology

Comparative study:

6 highly-internationalised MNCs
- 3 Canadian-owned
- 3 Swedish-owned
- 3 sectors (1 Canadian and 1 Swedish company in each sector) – forestry (primary), metalworking (secondary) and banking (tertiary)
- 2 regions

- 34 semi-structured Interviews in the country of origin of each MNC with various respondents:
  - V-P of HR at corporate HQ
  - HR managers at local plant/branch level
  - TU representatives at local and national levels
  - EWC representatives

- Secondary sources (company literature)
## Research methodology

<table>
<thead>
<tr>
<th>Company (nationality)</th>
<th>Sector</th>
<th>Organizational structure</th>
<th>No of business areas</th>
<th>No of employees co-wide</th>
<th>Regional presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi (Can)</td>
<td>Forest/paper products (primary)</td>
<td>Multidivisional</td>
<td>3</td>
<td>13,550</td>
<td>N.Am, Europe</td>
</tr>
<tr>
<td>SCA (Swe)</td>
<td>Forest/paper products (primary)</td>
<td>Multidivisional</td>
<td>4</td>
<td>51,022</td>
<td>Europe, N. Am, Asia</td>
</tr>
<tr>
<td>Magna Int (Can)</td>
<td>Auto supply manufacturer (secondary)</td>
<td>Multidivisional</td>
<td>8</td>
<td>82,800</td>
<td>N. Am, Europe, Asia</td>
</tr>
<tr>
<td>Sandvik (Swe)</td>
<td>Manufacturer of speciality tools/machinery (secondary)</td>
<td>Multidivisional</td>
<td>3</td>
<td>40,672</td>
<td>Europe, N. Am, Asia</td>
</tr>
<tr>
<td>Scotiabank (Can)</td>
<td>Retail/corporate banking (tertiary)</td>
<td>Multidivisional</td>
<td>3</td>
<td>52,972</td>
<td>N. Am, Europe, Asia</td>
</tr>
<tr>
<td>SEB (Swe)</td>
<td>Retail/corporate banking (tertiary)</td>
<td>Multidivisional</td>
<td>6</td>
<td>16,970</td>
<td>Europe</td>
</tr>
</tbody>
</table>

Data as at 2006 (Company Annual Reports)
## Results: first–order decision making

MNC spatial logic in Rugman’s (2005) terms:

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales : Europe</th>
<th>Sales : N. America</th>
<th>Sales : Asia</th>
<th>Sales : Rest of world</th>
<th>Orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abitibi (Can)</td>
<td>4.4%</td>
<td>87.5%</td>
<td>1.5%</td>
<td>6.6%</td>
<td>Home-region</td>
</tr>
<tr>
<td>SCA (Swe)</td>
<td>77%</td>
<td>12%</td>
<td>3.5%</td>
<td>7.5%</td>
<td>Home-region</td>
</tr>
<tr>
<td>Magna (Can)</td>
<td>43%</td>
<td>56%</td>
<td>1%</td>
<td></td>
<td>Home-region</td>
</tr>
<tr>
<td>Sandvik (Swe)</td>
<td>45%</td>
<td>20%</td>
<td>22%</td>
<td>13%</td>
<td>Global</td>
</tr>
<tr>
<td>Scotiabank (Can)</td>
<td></td>
<td>75%</td>
<td></td>
<td>25%</td>
<td>Home-region</td>
</tr>
<tr>
<td>SEB (Swe)</td>
<td>96%</td>
<td></td>
<td></td>
<td>4%</td>
<td>Home-region</td>
</tr>
</tbody>
</table>

Sales based on 2006 data (company reports)
Results – second-order decision making

Second order operational structures follow the spatial logic of first-order strategy – 5/6 regional, Sandvik global

But there is spatial complexity emerging in the 2 metalworking MNCs – introduction of hybrid structures:

• Sandvik – development of a North American regional management structure in 1 business area
• Magna – development of a global business structure in 1 business area

Rationale: to manage complexity and to better serve the customer

Tells us something about the complexity of the internationalisation trajectory of MNCs (Dicken, 2011):
Results – decision making at the third-order HR policy level

All 6 companies in the process of a major restructuring of approach to HR policy/philosophy:

- All developing global/co-wide policies in similar key areas (performance mgt, competence development, R&S, industrial relations)

- All developing co-wide standardized framework policies

- Similarity in rationale across firms: efficiency, duplication avoidance, diffuse best practice, develop HR as a competitive resource

- At different stages of development, but similar trajectory
Results – decision making at the third-order HR policy level

No evidence of a specific regional logic to HR policy development in any company - in spite of evidence of strong regional logic at higher-order levels.

Possible explanations:

1) Dominance effect (Smith and Meiksins, 1995; Pudelko and Harzing, 2007) – global ‘best practice’

2) Policy is intention only – gap between corporate HQ intention and implementation at process and practice levels (Chung et al., 2013; Khilji and Wang, 2006)
Results – decision making at the third-order HR process level

So is there evidence of a regional logic to the process of developing standardized HR policy?

Process differs according to country of origin:

3 Swedish MNCs all use international HR project teams to devise global policy – in SCA and Sandvik (SEB is regional by default) these teams are global and the process is geocentric (not regiocentric)

3 Canadian MNCs remain ethnocentric in the development of global HR policy – led by corporate HQ, no use of global/regional HR project teams
Results – decision making at the third-order HR process level

So is there any evidence of a regional logic in the process of HR policy development?

Yes – in the 2 metalworking firms

- Home-region influence
- Reflects very different home-region institutional environments

Magna – use of home-region to roll out, test and refine policy

Sandvik – use of the EWC to gain support for and to facilitate the roll out company-wide of its new global HR Connect policy and HR outsourcing
Concluding comments

Limits on generalizability of results – but adds rich empirical evidence to ongoing research on IHRM

Objective 1: To what extent are MNCs adopting a regional rather than global logic to their first-, second- and third-order strategies?

Answer: Important role at first- and second- order levels. At third-order HRM level, the picture is more complex – regional logic is relatively weak.

Objective 2: To what extent does the spatial logic of decision making at higher-order levels shape that of lower-order decision making within MNCs?

Answer: The spatial orientation of second-order strategy is strongly shaped by first-order. But the spatial logic of first- and second-order strategies do not appear to shape third-order HRM spatial logic.
Concluding comments

Why do we see this complexity at the level of HRM?

Brings us back to the significance of the global-local thesis:

- Evidence of strong dominance effect at level of HR policy
  - 6 firms, 2 countries, 2 regions, 3 sectors—strong similarity
  - Anglo-Saxon in nature—Canadian firms more advanced
  - Could explain Swedish geocentric approach vs Canadian ethnocentric approach to HR processes

- The all-important operationalization of HRM policy occurs in practice at the local level

- Evidence of some regional orientation in HR processes—but question remains, how easily will HR policy refined and supported in one region transfer across regions?