

# **THE NATURE OF INTERNATIONAL INTEGRATION AND HR POLICIES IN MULTINATIONAL COMPANIES**

**Tony Edwards**  
King's College London

## **ABSTRACT**

In this article we argue that the literature concerning the way that multinational companies (MNCs) manage their global workforces is characterized by a disjuncture between competing perspectives that arises from a lack of sensitivity to the way in which MNCs build linkages between their operations across borders. We show that whether MNCs develop international HR policies is shaped by the extent and nature of international integration, a much neglected factor in this research field.

## INTRODUCTION

Academic research concerning the way that multinational companies (MNCs) manage their global workforces is characterized by a disjuncture. The mainstream approach to this issue assumes that MNCs have strong incentives to develop a 'global' dimension in HRM but are constrained by the distinctiveness of national systems in the way that this can be applied. A counter-literature asserts, however, that MNCs make a virtue out of national differences by separating the various aspects of their operations so that each one is located in the country with the most suitable conditions and, therefore, they have little interest in developing common policies or transferring practices across borders. This disjuncture results from each strand of the literature being based on quite different assumptions concerning how MNCs organize themselves in an era of globalization.

For many early writers on globalization the term signified the standardization of markets (Levitt, 1983). Accordingly, over the last two decades or so considerable attention has been devoted to the ways in which the structures and strategies of MNCs are increasingly similar across borders. While the evidence does not suggest that there has been a neat process of convergence in this respect, what is certainly the case is that MNCs have increased the scale and scope of their operations. One incentive for foreign direct investment (FDI) is that it is 'market seeking' (Dunning, 1983) in that firms establish a physical presence in a national market, seeing this as a more effective way of securing control over the market compared with exporting or licensing. Indeed, in some cases, such as in some parts of the service sector, this physical presence is a necessity if the firm is to serve the new national market. Where this is the motive for expanding internationally then as MNCs grow they replicate key functions across countries.

A related but different aspect of globalization has been the way in which distinct parts of a production process have become geographically separated from each other. For instance, Sturgeon (2002) has argued that American manufacturers are moving towards a 'modular' form of production in which there are increasingly clear geographical breaks between various 'nodes' in the process. Central to this phenomenon has been digitalization, which has facilitated the codification and transmission of information across large distances, enabling the decoupling of various parts of a firm's activities (Berger, 2005). This has been a key driver of the 'fragmentation' of economic activity across borders (Arndt and Kierzkowski, 2001) in which nation states play host to one part of a process of production or service provision rather than the full process. One way in which this can occur is through a growth in arm's length relationships between firms trading across borders through 'global value chains', which is common where standard products are easily codified and valued (Gereffi, Humphrey and Sturgeon, 2005). This fragmentation can also occur through MNCs retaining activities in-house with cross-border co-ordination taking place through the hierarchy of the firm, for which the incentives are stronger where products are customized and where information flows across countries are complex (ibid).

These contrasting ways in which international integration takes place – replicating activities across countries on the one hand and fragmenting them on the other – have received insufficient attention in the literature on HRM in MNCs. As we will see, the dominant assumption in this field is that managers in multinationals have incentives to

build internationally standard HR policies but must balance this against the need to be sensitive to the specificities of the various locales in which they operate. This ‘global-local’ tension is assumed, normally implicitly, to be one that all MNCs must grapple with (Edwards and Kuruvilla, 2005). Yet, this approach rests on a particular form of international integration; the argument concerning ‘fragmentation’ suggests that firms are increasingly separating the various stages of production and locating each in a different country, meaning that they have little incentive to build global HR policies across operations which use quite distinct technologies and work processes. However, the counter-literature also rests on a particular form of international integration and thereby fails to recognise the incentives for pursuing a common approach to HRM across borders that exists in some types of MNCs.

It is argued in this paper that whether there is a global-local trade-off in the way MNCs manage their international workforces, and the form that this takes where there is one, is shaped by the extent and nature of international integration. We develop this argument by distinguishing between first, second, and third-order decisions that MNCs confront in this regard and use these to draw propositions concerning the logic or otherwise of global HR policies in various types of multinational firm. We further argue that the way that MNCs tackle the three types of decision is shaped by their ‘embeddedness’ in their environment and, hence, we develop the propositions through a consideration of the influence of the sector in which they operate and the institutions in their country of origin. In short, we show that the fissure that exists between the ‘global-local’ and the ‘fragmentation’ approaches can be resolved through analysis of the range of international strategies that MNCs can follow and the way that these are shaped by the context in which they operate.

The paper is structured as follows. The next section briefly reviews the literature on HR policies in MNCs, contrasting the mainstream literature with the counter-literature. The third establishes a set of propositions concerning the extent to which different types of multinationals have an incentive to develop international HR policies. These propositions are developed further in the fourth section through an analysis of how sector and national-specific factors shape integration and the implications and conclusions are discussed in the final one.

## **HRM IN MNCs: PATTERNS IN THE LITERATURE**

A central focus of the study of employment relations in multinational companies (MNCs) has been the extent to which such firms build HR policies across borders. Whether national systems are considered in cultural or institutional terms, a raft of studies assume that country-specific forms of economic organization create challenges to MNCs. Specifically, it is commonly assumed that they face a trade-off between pursuing a common element to their operations across countries on the one hand and adapting to national specificities on the other.

The common element is attributed either to a conscious attempt to base international policies on specific ‘organizational competencies’ (Taylor, Beechler and Napier, 1996) or to the influence of a ‘country of origin’ effect (Ferner, 1997) that stems from the institutional embeddedness of MNCs in their original national base. There is considerable evidence that many MNCs form global HR policies and base these on

practices characteristic of the home country. Much of the literature on Japanese MNCs, for example, testifies to the role of a 'home-based model' of production, especially amongst automotive firms (e.g. Whitley, Morgan, Kelly and Sharpe, 2003). Similarly, the evidence on US MNCs has pointed to a strong central influence over employment matters across borders, leading to a distinctively American flavour to the HR practices in areas such as diversity, performance management and collective relations (Ferner *et al.*, 2004).

The pressures to adapt, on the other hand, often referred to as 'host country effects', are considered to arise from the necessity of going with the grain of the rules and norms in the various host countries in which the firm operates. While large internationalized firms possess some scope to over-ride local norms, doing so entails some costs. These costs are occasionally tangible in the form of penalties for contravening laws and regulations, but more commonly they are intangible in the form of losing the goodwill of local actors, for example. One of the most widely cited studies in this vein is that by Rosenzweig and Nohria (1994). On the basis of survey evidence of foreign-owned affiliates in the US, they argued that HR practices in these workplaces 'tend to resemble local practices' (p248) and that 'adherence to local practices is the dominant influence' (p250). This is also in evidence in Gamble's (2003) study of a British retail firm in China in which he argued that local institutions and cultural features of the host environment offered a better explanation of the nature of employment practices than did a focus on the country of origin.

Other studies have emphasized the combination of global and local effects. For instance, Ding, Fields and Akhtar (1997) considered the extent of HQ control over HR policies in foreign-owned firms in the Shenzhen region and argued that MNCs have moved away from some practices that have a long history in China, such as life-time employment and egalitarian pay, but in other areas they are still strongly influenced by 'Chinese socialist ideology', such as limited pay differentials between occupational groups. In a similar vein, Farley, Hoenig and Yang (2004) on the basis of a survey of American, German and Japanese MNCs in China argued that HR practices of the Chinese units of MNCs reflect both 'push' factors to do with ownership, control and nationality and 'pull' factors to do with adapting to the Chinese system. (See Myloni, Harzing and Mirza, 2007 and Glover and Wilkinson, 2007 for other illustrations of how global and local pressures are balanced within MNCs).

While these empirical studies come to differing assessments of the balance between global and local pressures, they all share the assumption that MNCs face the dilemma of balancing the advantages of global policies with the need to adapt to local constraints. It is this widespread notion that MNCs engage in a trade-off between globalising and localising pressures – the 'global-local' tension – that dominates the literature (Edwards and Kuruvilla, 2005). One line of criticism of the large body of research in this vein is that the assumption that MNCs see advantages in developing a global approach is misplaced. Thus a contrasting line of argument is that MNCs make a virtue out of the national differences in host countries by separating the various aspects of the production or service provision process so that each one is located in the country with the most suitable conditions for the particular activity. Given that the operations in the various countries differ in character, management in MNCs have little incentive in developing global policies across operating units that have little in common with one another. Indeed, they are likely to see benefits in differentiating their approach to

managing their workforce across countries, with the nature of these differences being shaped by the technology and skills involved in the work process. This line of argument, which builds on the notion of the international ‘fragmentation’ of production and service provision through ‘global value chains’, has led to something of a counter-literature with some writers claiming that cross-national variation in employment practices should be seen as the multinational taking advantage of what each country offers. In this sense, the adaptation is enthusiastic rather than a reluctant acceptance of local constraints.

A notable study in this vein is Wilkinson, Gamble, Humphrey, Morris and Anthony’s (2001) analysis of Japanese electronics firms in Japan and Malaysia. The authors found marked variations between the two sets of plants: jobs in Japan were characterized by higher security, more autonomy and better opportunities for employees to undertake training and development than those in the Malaysian plants. The findings were explained not with reference to national constraints but rather to the internal division of labour within the Japanese firms controlling the production processes. The domestic operations of the Japanese MNCs, which carried out the design and development roles that account for a significant proportion of the ‘value added’, used relatively complex technology that requires specialist knowledge and skills from employees. The HR practices in the Japanese plants reflected management’s attempt to operate with a stable and motivated workforce for this type of plant. The Malaysian units, on the other hand, carried out the more labour-intensive production work and used less specialist technology that can be operated by largely unskilled workers. The HR practices that meshed with this type of operation focused on cost minimization, including numerical flexibility, tight supervision and little in the way of training.

This line of analysis also features strongly in Kenney and Florida’s (1994) study of Japanese controlled ‘maquiladoras’ in Mexico, principally in the consumer electronics industry. They argued that there was little evidence of the transfer of the Japanese-style employment practices that attracted so much attention in the west in the 1980s and early 1990s. The nature of the labour intensive assembly operations that produced goods for export into the US in product markets characterized by intense price competition severely curtailed the incentive that management had to transfer other aspects of the Japanese system. Another example of this is Dedoussis (1995) who argues that understanding the way Japanese firms do or do not transfer practices across borders ‘may be approached as an issue of devising appropriate managerial strategies for different segments of the global workforce’ (1995: 732). Overall, the author argued that ‘the transfer of Japanese management practices is primarily affected by economic considerations rather than socio-cultural constraints as has frequently been argued in the literature’ (1995: 731). In a similar vein, Kahancova and van der Meer’s (2006) study of a Western European manufacturing firm indicated that management was taking advantage of circumstances in Poland rather than being constrained by them. They argued that ‘we can speak neither about diffusion of employment practices nor about their adaptation’ because the firm was making a virtue out of ‘utilizing local conditions’ (2006: 1393).

So is it really the case that the mainstream literature has got it wrong in assuming there is a global-local trade-off? Or has the counter literature – which we might call the ‘fragmentation’ thesis – gone too far in playing down the possibility of there being a combination of global and local influences? In the next section we look to shed light on these questions by considering the variety of forms that international integration can take

in order to show that the disjuncture between the two strands of the literature arises out of a lack of sensitivity to the way in which MNCs link their operations across borders. In other words, we look to avoid the drawbacks that flow from treating multinationals ‘in a largely undifferentiated fashion’ (Marginson, 1992).

## **INTERNATIONAL INTEGRATION IN MNCs**

In trying to build bridges between the different strands of the literature we chart the variety of ways in which MNCs organize their activities across borders, focussing on the extent and nature of linkages between sites. We discuss three sets of decisions that actors in key positions in MNCs confront and show how the way that these are resolved shapes the context in which the firm manages its international workforce.

The first of these decisions, which we refer to as a first-order issue, is whether the firm primarily seeks to achieve financial economies from their international operations or to realize benefits from integrating their operations across borders. As Hill and Hoskisson (1987) note, financial economies may be achieved by the hierarchy of the firm being substituted for external capital markets on the basis that the former is more efficient in accessing good quality information about the operating units and also in monitoring them. Thus the attraction of growing internationally in this way is that the multinational firm acts as an ‘internal capital market’ (Marginson, 1992). This *modus operandi* is generally associated with firms that have diversified into unrelated areas, such as Hanson Trust which had such diverse interests as building supplies in the UK, chemicals in the US and gold mines in Australia until its de-merger in 1996. In these firms there are a series of ‘stand-alone’ sites across countries that have responsibility for a particular product or service and have no operational linkages with other parts of the multinational. Consequently, they have considerable autonomy on matters such as employment practices, with the HQ role being confined to pressurising the managers of business units to produce good financial returns but otherwise leaving them to their own devices. These MNCs may be thought of as *non-integrated*.

Other MNCs strive to integrate their operations internationally. This notion, defined by Edwards and Ferner (2002) as ‘the realization of synergies across countries’, is more common in multinationals that are not diversified, or only into related areas. It has been argued that internationally integrated firms are more likely than others to develop a common element to how they manage their workforces across countries. This is because such firms have a degree of commonality in their international operations and because the realization of synergies involves HQ managers influencing the nature of policies and practices at site level. For example, Marginson, Armstrong, Edwards and Purcell (1995) have shown that MNCs that are integrated across borders are those that most commonly develop international policies on employment practice. This leads to the first proposition.

Proposition 1: MNCs seeking financial economies through *non-integration* are less likely than those looking to realize synergies across borders to develop global HR policies.

However, while analysis of this first order issue is helpful in distinguishing between broad types of MNCs, what it leaves open is the variety of forms that international integration can take. Thus the second order issue relates to those MNCs that integrate their operations and concerns whether they achieve this through *segmentation* or *replication*. The former involves each operating unit performing a distinct part of the production or service provision process in a vertically integrated chain. The advantages of achieving vertical integration in this way stem from scale economies, control over the supply of components of raw materials and the elimination of transactions costs associated with market exchanges (Hill and Hoskisson, 1987). In this scenario, the multinational establishes vertical linkages between sites and each site either supplies components or services to others, receives components or services from others, or both. In order to segment operations through vertical linkages it must be possible for the firm to separate the stages in a production process and place them in different locations. Where this is feasible firms are able to segment their operations across countries in order to exploit nationally specific expertise, favourable legal climates, low costs or whatever else makes one location more attractive than others. That MNCs were moving in this direction was the central thesis of the 'new international division of labour' (Frobel, Heinricks and Kreye, 1980) in which MNCs achieve international integration by de-linking parts of the production process from one another, with the labour intensive functions being located in countries offering a pool of cheap and compliant workers and the capital intensive functions taking place in developed countries. More recently, Dicken (2003) has argued that technological innovations have permitted a number of production processes to be segmented across borders in this way. As he puts it, the trend is towards strategies involving 'complex integration in which different parts of a firm's operations are reconfigured and relocated according to the relative advantages of alternative locations' (2003: 248). As we have seen, the recent research concerning 'fragmentation' (Arndt and Kierzkowski, 2001) and 'global value chains' (Gereffi *et al.*, 2005) describes a similar phenomenon.

A key consequence of *segmentation* is that the distinct role for the sites means that they differ from each other in the occupational mix of staff, while the tasks that employees are required to perform and the technologies they operate also differ. The principal implication for how MNCs manage their international workforces is that there is relatively little incentive to apply common HR policies across these quite different operating units and it is this that is the basis of the counter-literature reviewed in the introduction. However, while segmentation severely limits the motivation that MNCs have to develop a global dimension to HR, it does not remove the motivation entirely. There are two reasons for this. First, those MNCs which wish to protect a brand that covers multiple products and services may have an incentive in establishing minimum employment standards that apply across sites and in promoting a 'socially responsible' approach across their sites. Second, where there are vertical linkages between sites 'changes in production, or the adoption of a new technology, in one part of the company can have implications for employment, skills and ways of working elsewhere in the company' (Marginson, 1992: 537). In particular, there is an incentive for the HQ to ensure that flows of components and services between the operating units occur smoothly and they might seek to do this by attempting to instil a corporate culture through common training programmes for particular groups of staff.

The alternative form of international integration, *replication*, involves the creation of similar operating units performing essentially the same roles as their counterparts in other countries, with sites employing a similar profile of workers who perform comparable tasks and use similar technologies. The replicated form is most likely to be found where MNCs face a requirement to have a local presence if they are to serve the national market. For example, in some sectors the immediacy between firms and consumers makes a local presence a necessity. Where these pressures are strong, MNCs tend to create one or more operating units in each of the national markets that they wish to serve. One consequence of replication is that MNCs have an incentive to develop ‘tangible inter-relationships’ through jointly developing new technologies and production processes across sites and in encouraging the instigation of ‘intangible inter-relationships’ through the diffusion of expertise across borders (Hill and Hoskisson, 1987; Marginson, 1992). Thus it is in these types of firm that global HR policies are more likely to feature, leading us to the paper’s second proposition.

Proposition 2: The incentive for *segmented* MNCs to develop global HR policies is lower (though not non-existent) than that for *replicated* MNCs.

The distinction between *segmented* and *replicated* forms is useful in showing how some internationally integrated MNCs have stronger incentives than others to develop a common element to the HR policies across borders and it is within replicated firms in which the global-local tension is most in evidence. However, within this group of MNCs we need to make a further distinction that helps shed light on the relative influence of the global and the local influences. Thus the third order question relates to this sub-group of MNCs and concerns the balance that they strike between *differentiation* and *standardisation* in the product market.

A differentiated approach involves the nature of products or services being tailored to nationally specific factors, such as distinctive consumer preferences and regulations. MNCs that differentiate their approach in this way achieve a degree of ‘local responsiveness’ (Bartlett and Ghoshal, 1998) in that they are able to meet the wishes of local consumers and regulatory bodies. Thus, while this is a form of replication in that the firm establishes a series of operating units in different countries that perform comparable functions, employ a similar mix of occupational groups and use technologies that have much in common, the differentiated nature of these operating units means that considerable autonomy is granted to local actors concerning the nature of the product and how it is produced. This devolution of responsibility for decision-making is likely to extend to HRM and, therefore, will constrain the scope for common HR policies. In other words, the local dimension is a significant factor in the nature of the product or service and we might expect this to feed through into a notable local dimension to HR.

The second variant of replication, *standardization*, is found where products or services are largely homogeneous internationally and where MNCs require a local presence to serve a national market. An important source of synergies in this scenario is the adoption of international management structures that facilitate a common approach across sites, often in the form of a single model of production or service provision and the transfer of practices across sites. This is feasible and attractive because the sites not only share many features with their counterparts in other countries in terms of their

occupational mix and the basic technologies employed but also because the standardized nature of the product means that the nature of the work process is very similar across sites. This leads us to the third proposition of the paper:

Proposition 3: In *differentiated* MNCs the adaptations to the local context mean that there is a stronger local dimension to HR policies when compared with *standardized* firms where the global element to HR policies is likely to be strongest.

In sum, this analysis has generated four ideal types of multinational, which have differing incentives to build global HR policies. The first type, which has little incentive to do so, is *non-integrated* firms that seek to achieve financial economies through unrelated diversification. The other three types all strive to realize synergies from international integration, albeit in different ways. Thus the second group, those which are *segmented* across borders, have some modest incentive to develop a common approach to IHRM through promoting socially responsible behaviour and ensuring smooth trading linkages between sites, but this is heavily constrained by the marked variations across countries in the technologies and occupational mix of their workforces. The third and the fourth groups are both replicated. In the third, *differentiated* MNCs, the need to adapt the products and the way they are produced limits the scope for global HR policies since the pressures to adapt to the local context are strong. In contrast, in the fourth, *standardized* firms, the common nature of the products affords MNCs considerably more scope for global HR policies. These propositions are summarized in Table 1.

*Insert Table 1 here*

In practice the distinction between these four types of firm is not as neat as the above categorisation suggests. Different elements of integration can be found in the same firm as it balances competing priorities and as it shifts from one position to another. Diversified MNCs that organize themselves on a divisionalized basis, for example, may adopt a replicated approach in some divisions and a segmented one in others. Moreover, many MNCs may seek to segment some aspects of their operations, such as R&D and call centres, but to replicate others, such as production sites and sales forces. A further example of how different elements of integration can be found in the same firm is that MNCs may seek to balance the benefits of different forms of integration within and across regions through pursuing a degree of segmentation on a regional basis, resulting in sites being quite different in character from others in their region but strong similarities with sister plants in other countries. Consequently, intermediate positions in which MNCs try to reap some of the advantages of each form of integration may be anticipated. Nevertheless, the utility in distinguishing between companies in this way lies in highlighting the variety of forms of international integration that exist and the differing incentives that each type has to adopt a global dimension to the way they manage their international workforces. Approaches that implicitly assume that MNCs have an incentive to develop global HR policies ignore this variety, but so too does the 'fragmentation' thesis. In the next section we seek to explain variation in the way that firms confront these three types of decision.

## EXTENDING THE FRAMEWORK: SECTORAL AND NATIONAL EFFECTS

One source of variation is sector-specific conditions. In some sectors it is feasible to separate various stages in the process of production or service provision so that they are geographically remote from one another; in others there are strong pressures towards locating the various parts of the process close together. A further distinction is between sectors that are characterized by product markets that are distinct from one another in the way that they are regulated or in the nature of consumer tastes, while these factors are much less important in other sectors leading to an internationally homogeneous product.

A second source of variation is the national effects on company strategy and structure. The distinctiveness of national systems features in the framework elaborated upon above in the sense that a strategy of segmentation exploits differences in host countries while a strategy of differentiation involves adaptation to differences in national markets. Here, this focus on the distinctiveness of host countries is extended to a consideration of the way in which home country institutions shape the form of integration that a multinational pursues and the nature of control that the HQ exercises. By doing so, the home country effect, which is a key feature of the global-local mainstream of course, is brought into the analysis. The article focuses on the three countries that account for the largest amounts of foreign direct investment, the US, the UK and Germany<sup>1</sup>.

How do sector and country of origin shape the way that firms confront the first order issue? By definition, firms that are diversified into unrelated areas straddle a number of sectors, of course, and a pure strategy of seeking financial economies with no linkages between operating units is unlikely to be associated with any particular cluster of sectors. Therefore, there are no *a priori* grounds for expecting sector to be a factor in the first order decision.

There are, however, grounds for expecting the country of origin to shape this issue. One way in which this influence might manifest itself is that the heritage of MNCs of some nationalities may mean they are less likely to have followed a path of unrelated diversification. For example, in France the influence of the state on large companies – particularly the way that many were *grands projets* – and their centralized nature has meant that historically they have tended to be focused on one activity or in related activities (Whittington, Mayer and Curto, 1999, Zysman, 1994). However, in the three countries in question here there seems to be a history of diversification among large companies; Whittington *et al.* (1999) note the emergence of large, diversified companies in the US in the post-war period and the long-standing patterns of unrelated diversification amongst UK firms and in many holding companies in Germany.

The national influence from the parent company may show through in a second way, namely in the nature of control within highly diversified firms. The strategy of diversification followed by many American firms was linked to the development of the M-form studied by Chandler (1990). This structure meant that even where firms had diversified into unrelated areas the HQ retained the capability to exert strategic control through the divisions, and where this M-form was extended to the international level it provided a structure for controlling similar operations across countries. The prevalence of this form of development has meant that many diversified US MNCs possess the ‘organizational means’ to exert control across borders (Ferner *et al.*, 2004) and a strategy of purely seeking out financial economies is likely to be rare. In contrast, UK firms have

tended to lack the organizational means to realize synergies across internationally diversified operations. Historically, this may be traced to the way that many large British firms ‘operated as holding companies which were loosely organized as federations of firms, with small central headquarters, little coordination or integration, and with operating decisions left to the constituent companies’ (Gospel, 1992: 17). Coupled to this has been the dominance of the accounting profession in British firms (Matthews *et al.*, 1997) and a value system, sometimes termed ‘gentlemanly capitalism’ (Cain and Hopkins, 1993), in which higher status is placed on income generated in trading and finance than in production. In Germany, family ownership appears to be associated with the existence of diversified conglomerates with a holding company structure, with this model apparently growing in popularity from the post-war period to the early 1990s (Whittington *et al.*, 1999). The nature of corporate development in the three countries leads to the fourth proposition.

Proposition 4: The home country context makes a strategy of achieving financial economies with little international coordination on HR more common in British and German MNCs than in those from the US.

There are good reasons to expect that the second-order issue – whether those MNCs that seek a degree of integration across borders do so through segmentation or replication – will be profoundly shaped by the nature of the sector. The key factor in this respect is whether it is feasible to separate various stages in the process of production or service provision and thereby serve national markets with production or service provision that is geographically remote. In some sectors there are strong pressures towards establishing facilities in each national market that the firm serves. The perishable nature of some products and services means that there is an immediacy between firm and consumer in industries such as fast-food and newspaper printing (Bair and Ramsay, 2003). The requirement to have a presence in the local market may be partial, but significant nonetheless. For example, in pharmaceuticals many large firms judge that a local manufacturing presence helps them gain approval for their products from national regulatory bodies and to win business from governments (Edwards, Coller, Ortiz, Rees and Wortmann, 2006), the JIT requirements of production in the automotive sector maintains a pressure towards producing locally (Edwards and Zhang, forthcoming 2008), and high transport costs make a local presence attractive in the production of ‘white goods’ (Nichols and Cam, 2005). In these sectors, multinationals tend towards a strategy of replication.

In other sectors it is much more feasible to separate parts of the process across large geographical distances. In the electronics industry this is evidently possible. For example, Kenney and Florida (1994) show that the manufacturing of televisions is segmented so that capital intensive aspects of the production process, such as the tubes, take place in developed countries, particularly Japan, Singapore and the US, while the labour intensive aspects, such as the circuit boards and final assembly, are located in locations offering cheap labour such as Mexico and China. Similarly, the segmentation strategies of Japanese electronics manufacturers in relocating low value added stages of production to their subsidiaries elsewhere in Asia have been well documented and, as we saw above, have been used as the empirical basis for the counter-literature (e.g.

Wilkinson *et al.*, 2001). International segmentation has become feasible in some areas of the service sector, such as finance where face-to-face customer contact has been replaced to a large extent by international call centers. Taylor and Bain (2004) demonstrate that nearly half of all call centers in India are directly owned and controlled by a multinational and do not serve any other client, a clear indication of segmentation within MNCs. Key factors in these cases are the fall in the relative cost of transportation and technological developments in communication which have made it feasible to separate various stages in the process across borders.

Proposition 5a: MNCs in sectors in which it is possible to separate stages in the production or service provision process are those most likely to adopt a segmented rather than a replicated strategy.

The way in which MNCs achieve a degree of segmentation is shaped by the national system in which they are embedded. In deciding where to locate those functions that are subject to segmentation, MNCs can engage in ‘arbitrage’ in which they evaluate the relative strengths of the home country business system in relation to others. For instance, German MNCs operating in sectors such as machine tools are likely to concentrate manufacturing at home given the supportive environment for ‘incremental innovations’ and ‘diversified quality production’ that suits this industry. Internationalization in such firms is likely to take the form of establishing sales and marketing units in various national markets. In this scenario the firm segments manufacturing through producing at home but replicates other function such as sales and marketing. In contrast, in sectors requiring ‘radical innovations’, such as pharmaceuticals, there are strong incentives for German MNCs to locate R&D laboratories in countries that have an institutional framework conducive to these activities, such as the US (Jackson and Deeg, forthcoming 2008). They may combine this with establishing a local manufacturing presence in the principal national markets with these factories fulfilling almost identical functions to one another. In such cases, R&D is segmented through concentrating this function in foreign sites with production being replicated across countries. It follows that MNCs of other nationalities will face different incentives in engaging in institutional arbitrage, leading to variation among firms in the same sector in whether they segment through production at home or abroad. Thus segmentation comes in various sectoral and national packages.

Proposition 5b: For those MNCs pursuing a segmented approach, the advantages derived from the institutions in their home country shapes the location of the functions that are concentrated.

The sector is also a key influence on the way in which MNCs confront the third order issue. As noted above, some sectors are characterized by product markets that are nationally distinctive in the way they are regulated or in the nature of consumer tastes. One example is electricity provision, a sector in which there have been many international acquisitions in the last decade or so. As firms move into new countries they establish a set of international operations that perform the same basic functions as one another, the generation and distribution of electricity. Thus they are adopting a replicated

strategy, but one in which the precise character of their operations is strongly shaped by local regulations. Thus Colling and Clark's (2006) examination of US electricity firms in the UK demonstrated that the pressures for differentiation were very strong; despite the basic product being the same everywhere, the market was characterized by such factors as regulatory price caps and the inter-dependence of firms within a national industry that differentiated one national market from another. Following the logic above, this creates a tendency to decentralise decision-making in functions such as HR. Accordingly, their conclusion concerning HR was that developments in the British operations of the MNCs were not driven by international HR policies but rather reflected local developments in the UK industry. The authors' previous case study work on the civil engineering industry had revealed a similarly differentiated approach (Colling and Clark, 2002). We might anticipate that MNCs in sectors such as auditing, where there are pressures to establish a local presence but with the service being regulated in distinctive ways at national level, will also operate in a differentiated manner.

In other sectors the factors creating nationally distinct product markets are less in evidence and instead product markets exhibit a high degree of international homogeneity. In mechanical engineering, for example, the dominant model amongst MNCs appears to be standardisation. The costs involved in transporting heavy and bulky products and the practice of JIT production lead firms to establish replicated production sites in the principal national markets (Ivarsson and Alvstam, 2005). This means of expansion through establishing 'mini-replicas' of existing operations means that the technological context and the nature of skill requirements are similar across sites, creating commonalities in the context of employment relations. While this is also the case in electricity provision, the key difference in mechanical engineering is that the sector is not governed to some extent by market regulations that distinguish one national market from another. This increases the scope that MNCs have to develop global HR policies, as Edwards and Zhang (forthcoming 2008) demonstrate through the case of an American engine producer in China, in which there were strong global HR policies in areas such as team-working, diversity and performance management. Internationally standardized MNCs are also in evidence in parts of the hotel and catering industry. The immediacy between firm and consumer in this sector means that MNCs must expand through building mini-replicas of their existing operations and the limited evidence in relation to hotels for business people (Jones, Thompson and Nickson, 1998) and fast-food (Royle, 2000) testify to the way in which MNCs in these areas have developed both a highly standardized approach and, accordingly, a strong common element to the management of their workforce across borders.

Proposition 6a: The greater the extent to which national product markets are distinctive from one another, the more likely are MNCs to adopt a differentiated as opposed to a standardized approach

The nationality of the multinational also influences the way that it tackles the third order question. We noted above that the country of origin is a factor in whether MNCs have the 'organizational means' to realize synergies across borders and this is particularly so for those MNCs looking to standardize their international operations. Following this logic, American MNCs appear to be better placed than their British or

German counterparts to transfer domestic forms of production or service provision into their foreign operations. A further aspect of the country of origin that shapes a firm's ability to adopt a standardized approach is the institutional supports for firm-level practices. Arguably, production models and associated practices are relatively 'exportable' in the sense that they are not dependent on local institutions. The mass production model developed famously by many American firms, for example, does not require a pool of employees with flexible skills. Accordingly, there is considerable evidence of US MNCs adopting a standardized model of internationalisation with this being associated with global HR policies (e.g. Ferner *et al.*, 2006). In contrast, as alluded to above, the production strategies of German firms are more dependent on extra-firm institutional supports in areas such as training, making it more difficult for such firms to use this as the basis for standardization (e.g. Geppert *et al.*, 2003). This suggests that those German MNCs that pursue a replicated approach are likely to tend towards the differentiated variant of this.

Proposition 6b: US MNCs are more likely to be standardized than British or German MNCs.

## CONCLUSION

The contribution of this paper has been to enhance the debate concerning the way that MNCs manage their international workforces. It has analysed this issue in the context of the various international corporate strategies that MNCs can pursue and this has highlighted how both the mainstream approach, focusing on the global-local tension, and the counter-literature, which stress the way that MNCs make a virtue out of national differences, are predicated on particular forms of integration and ignore the others. Moreover, it has established two sources of variation in the nature of the strategies that MNCs pursue, the economic conditions of the sector and the institutional environment of the country of origin. The logic of this position is that counterposing economic and institutional approaches to this issue, as some writers have done, is unhelpful; rather, these two sets of factors are inextricably linked (Whitley, 1996). MNCs consider economic factors in deciding on how to configure their international operations, of course, but they do not take these decisions in an institutional vacuum.

An important qualification relates to our argument concerning the influence of contingent factors on how firms manage their international workforces. Our argument concerning has been that the extent and nature of international integration *shapes* the firm's approach to the management of its international workforce and that sectoral and national conditions explain variation in this respect, but in so doing we are not adopting a deterministic approach. That is, we acknowledge that there are firm-specific idiosyncrasies that mean that some MNCs will have a global dimension to HRM even where the framework would not predict this. For example, previous research into the origins of global HR policies in MNCs has shed light on the role of ideological commitments made by 'founding fathers' at key stages in firms' development and how this can lead to the articulation of an explicit corporate culture and to global policies in particular areas of HR practice such as workforce diversity (Edwards, Colling and Ferner, 2007). This implies that even some firms that are non-integrated or segmented may have

a global element to HR policies. Recognising this does not detract from the usefulness of our focus on the extent and nature of international integration in establishing empirical regularities, however.

The propositions in this paper need to be tested and refined through empirical work. The evidence on the prevalence of the various forms of integration is patchy at best. For instance, the conventional wisdom seems to be that a strategy of pursuing financial economies through a strategy of unrelated diversification is now rare, but predictions of the demise of these ‘monsters’ has proven premature before (Whittington *et al.*, 1999). Thus it is extremely unclear how prevalent are each of the four types. Nor is it clear which forms of integration can most readily be combined with one another; it may be that empirical work would enable the identification of clusters of companies according to the combination of different strategies that they pursue. Perhaps even more importantly, what is the explanatory power of the propositions established in this paper? Do non-integrated MNCs have little in the way of a global element to HR as the analysis in this paper has predicted? Is a global element to HR evident only in certain areas, such as CSR and the development of key staff, in segmented MNCs? And can differentiated and standardized MNCs be distinguished by the balance they strike between a global and a local dimension to HR policies? These tasks are left to future research.

## **ENDNOTES**

1. The United Nation's (2007) World Investment Report shows that the stock of outward foreign direct investment (FDI) is greatest from the US (20.7% of the total), second highest from Britain (14.1%) and third highest from Germany (8.6%). The stock is preferred to the flow as the best measure of this because the latter is more volatile since the pattern can be altered from year to year by one-off factors such as a large merger or acquisition.

**Table 1**  
**Forms of International Integration and Global HR Policies**

1 <sup>st</sup> Order	2nd Order	3 <sup>rd</sup> Order	
Type of Economies	Form of Integration	Variant of Replication	Implications for International HRM
Financial	-	-	Little incentive for MNCs to develop global HR policies
Synergies through Integration	Segmentation	-	The segmentation limits the attractiveness of global HR policies, though HQ may have some role in promoting smooth exchange between sites and 'socially responsible' behaviour
	Replication	Differentiation	Some incentive to develop global policies and to transfer practices across sites but this is constrained by strong adaptation to host countries
		Standardisation	Strong incentives to develop global policies and to transfer practices across sites – little adaptation to host countries

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