Subsidiary autonomy over industrial relations in Ireland and Spain

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SYNOPSIS

In the context of an expanding globalisation, multinational companies (MNCs) are facing the challenges of managing a global workforce across borders. In this complex task, some MNCs opt to standardise policies and transfer them from MNC headquarters to subsidiaries abroad. Others pursue a strategy of localisation allowing subsidiary managers to develop and implement policies locally. Drawing on data from two parallel large-scale surveys conducted in Ireland and Spain we test explanations of the variation in the autonomy that local managers experience over industrial relations policies in MNC subsidiaries. Our findings point to high levels of local autonomy over union engagement and employee consultation in both host locations thus confirming the significance of institutional effects in these domain areas of management in MNCs. Mode of entry of the subsidiary and the trajectory of new investments prove to be relevant in determining local autonomy over IR while suggesting that IR practices are somewhat detached from the so-called international human resources structures often used by MNCs to standardise policy globally.

Introduction and background

How much latitude do local managers have in MNCs to formulate their own employment practices? Do they have scope to develop their own industrial relations policies or are these imposed by headquarters? The extent to which local managers enjoy autonomy over employment practices has been an important line of enquiry in international business research for several decades. Our article contributes to this analysis by identifying and testing a number of factors which account for variations in autonomy over industrial relations policies among MNC subsidiaries. We examine the extent to which the subsidiary is the de facto policy-making agent with respect to trade union engagement and employee consultation. We bring together three different dimensions: home- and host-country effects, organizational context and international human resources structures.

Issues and Questions Considered

Factors obstructing or facilitating local autonomy are classified into three broad categories: institutional, organisational and departmental. Within the institutional factors, we incorporate home country and host country

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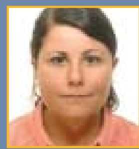

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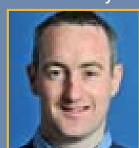

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effects. The 'home country effect' is defined as the interconnected traits of the management style and behaviour of MNCs which can be attributed to the characteristics and elements of the institutional context from which the MNC originates. The 'host country effect' is the impact that national regulation, social and cultural norms, and local management practices of the host context have on the employment practices pursued by foreign-owned subsidiaries. Ireland and Spain constitute two suitable locales for cross-national comparison as both countries have distinctive national business and IR systems. In relation to the institutional context our study considers two questions:

- Do US-owned subsidiaries enjoy lower levels of local autonomy over industrial relations than subsidiaries from other countries?
- Do subsidiaries operating in Spain enjoy more local autonomy over industrial relations than those in Ireland?

At the organisational level, we include sector of operations, size of the subsidiary, age, mode of entry and the trajectory of corporate investment in the host country as potential explanatory factors for local autonomy. Regarding the organisational factors our questions are as follows:

- Do subsidiaries operating in the service sector enjoy higher levels of local autonomy over industrial relations than those in the manufacturing?
- Do older subsidiaries enjoy more local autonomy over industrial relations than the young ones?
- To what extent does subsidiary size impact on the level of local autonomy over industrial relations?
- Do subsidiaries which were established through greenfield site or which have undertaken new investments present lower levels of subsidiary autonomy over industrial relations?

Finally, we test the impact of the use of international human resources/IR structures on the extent of autonomy over IR matters. It is increasingly evident that certain international human resources/IR structures limit the extent of local autonomy over employment practices. These include the presence of expatriates in the subsidiary, an international HRM committee acting as policy-making agent to develop and disseminate HRM practices across borders, the frequent direct reporting on HR/IR issues from subsidiary to headquarters, the use of information technology systems for HR (HRIS), the incidence of a shared service centre specifically designed for the HR function and the presence of a European Work Councils. Tacking stock of these previous contributions, our questions are:

- Does the number of expatriates impact on the level of subsidiary autonomy over IR?
- Does the presence of international HRM structures have a negative impact on the extent of local autonomy over IR?
- Does the presence of a European Work Council lower the level of local autonomy over IR?

Methodology

The data used in this article derive from two comparative large-scale surveys of employment practice in MNCs in Spain and Ireland - these were part of the INTREPID project. Initially, the fieldwork entailed the compilation of an accurate listing of the population of MNCs in both countries. Thereafter, structured surveys were conducted face-to-face by members of the research team in both countries. A total of 213 companies participated in Ireland, providing a response rate of 60%. In the Spanish case, 242 foreign companies participated, giving a response rate of 27.1%.

Outcomes and Findings

Our findings suggest that the overall level of subsidiary autonomy over union engagement and employee consultation is high suggesting that local managers enjoy high levels of discretion in this area. The output of the regressions suggest lower levels of subsidiary autonomy among American-owned MNCs than in those headquartered in the United Kingdom, France and throughout the rest of Europe. The host country effect is also significant as predicated; subsidiaries in Spain enjoy higher levels of local autonomy than those in Ireland. This primarily means that managers of foreign-owned MNCs in Spain avail of higher scope for decision-making over IR than their Irish counterparts. Two organisational factors seem to hold explanatory power: mode of entry and the trajectory of new investments. Managers working in subsidiaries which were established via greenfield sites or that have secured new investments in the past five years were afforded less discretion over IR decision making. Here MNCs Headquarters were inclined to take advantage of the lack of a pre-established management style in implementing their preferred approach. Additionally, our findings show a relationship between the presence of expatriates in the subsidiary and diminished autonomy to local managers. Finally, local autonomy over IR practices seems to be detached from the use of other international HRM/IR structures such as an international HRM committee, a shared service centre, frequent direct reporting from subsidiaries to headquarter and a European Work Council. These international HRM structures have been identified as mechanisms of central control over HRM practices and hence, limitations to local managers' autonomy. However, our study suggests that this is not the case for IR practices and therefore, managers will not find their decision-making over IR practices constrained by these structures.

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