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Global standardization or national differentiation of HRM practices in multinational companies? A comparison of multinationals in five countries

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Synopsis

A key debate within multinational companies (MNCs) is the extent to which they seek to standardise or adapt their human resource management (HRM) practices in their foreign subsidiaries. This paper contributes to this debate by comparing performance management practices of MNCs in the UK, Ireland, Canada, Spain, Denmark and Norway. Using a variety of analysis we find evidence of standardisation in the nature of practices across countries, particular among US MNCs. Even where we find evidence of variation across and within countries, this cannot be fully explained by adaptation to local institutional constraints but rather can be seen as the product of how distinct national institutions can promote the take-up of practices.

Introduction and Background

During the last two decades many researchers have focused on the issue of whether MNCs standardise their HRM practices across their

foreign subsidiaries or whether they adapt them to the local traditions and norms of the host country. One body of literature suggests that MNCs will seek to standardise practices due the 'firm specific advantage' that they enjoy (Rugman and Verbeke, 2003). Indeed some scholars argue that we are witnessing a standardisation of HRM practices around 'a worldwide best practices model' (Pudelko and Harzing, 2007). However there remain strong pressures either from within MNCs or from local institutions to adapt HRM practices to the host country context. For example the 'varieties of capitalism' literature (Hall and Soskice, 2001) suggests that MNCs are likely to be constrained by local institutions. The greater the institutional distance (the extent of similarity/dissimilarity of institutions between the home country of the MNC and the host country), the more difficult it is to standardise HRM practices. Rosenzweig and Nohria (1994) argue that 'adherence to local practices is the dominant influence' on the practices of MNCs. More recent contributions to this debate suggest that MNCs seek to balance the standardisation and local adaptation of their practices (Stavrou et al., 2010).

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Issues and Questions Considered

The extant literature suffers from a number of theoretical and methodological weaknesses. First, the literature has played down the heterogeneous nature of national institutions. For example only rarely are institutions uniform and coherent across a country; generally, they are partial in their coverage and malleable in the hands of large firms like MNCs (Jackson and Deeg, 2008). Thus national institutions are not necessarily a reliable measure of institutional pressures and we thus need to incorporate this notion of 'intra-national' heterogeneity into our analysis. Second, the standardisation and local adaptation debate widely assumes that all MNCs want to standardise their HRM practices across countries. However not all MNCs seek to standardise their HRM practices, indeed it is quite plausible that many MNCs will look to deliberately differentiate their employment practices to benefit from host country conditions. Thus we incorporate the notion of 'strategic' heterogeneity among MNCs into our analysis. Finally with some exceptions (e.g. Brewster et al., 2008; Pudelko and Harzing, 2007), previous research has failed to study MNCs in their home country. A key test of whether MNCs really have developed standardised practices along the lines of global norms is whether they manage their indigenous workforces in similar ways.

We address the following two questions. First, are there differences in the take-up of practices across countries? This will help us address whether there are local institutional effects in evidence, or whether these have been over-ridden by the pressures towards standardisation. We address this for MNCs as a whole and by splitting MNCs into the separate groups of indigenous and US-owned. Second, are there significant differences in the take-up of practices between these two groups? In addressing this question we will explore one element of the extent of 'intra-national' heterogeneity of MNCs of different nationalities and compare this across countries. By examining the practices of indigenous firms alongside those of the US, we are able to throw new light on the crucial, yet neglected, issue of how MNCs manage their domestic workforces and on the issue of how US MNCs operate in a set of contrasting host countries.

Methodology

The research comprised of coordinated, parallel, nationally representative surveys of employment

practices in MNCs in the UK, Canada, Ireland, Spain, Denmark and Norway – and draws on the data for indigenous and US-owned MNCs. The total number of indigenous MNCs was 276 (44 in UK, 43 in Canada, 47 in Ireland, 83 in Spain, 30 in Denmark and 29 in Norway) and US-owned MNCs totalled 444 (123 in UK, 106 in Canada, 101 in Ireland, 90 in Spain, 17 in Denmark and 7 in Norway), giving a total of 720 MNCs. We assess six practices: individual appraisal for the largest occupational group (LOG) and for managers; forced distributions in appraisal for the LOG and for managers; and variable pay for the LOG and for managers.

Outcomes and Findings

In addressing our first research question we found that the take up of performance management practices varies only partially across countries. Where variation does take place it cannot be fully explained by institutional constraints. However rather than rejecting an institutional approach, we suggest that a more nuanced perspective reveals that institutions can promote certain practices at firm level in a differential way across countries. In relation to the second question, there is relatively little evidence of systematic differences between indigenous and US MNCs, and once again, we do not reject an institutionalist approach outright but rather argue that it needs to be applied in such a way that is sensitive to dual institutional fields that exist within some economies and to the subtle ways in which different national institutional frameworks can result in a similar take-up of practices across countries. Thus we have argued for an actor-centred form of institutionalism that is sensitive to distinct national contexts. This is significant because the mainstream approach to the standardisation–adaptation issue has focused on nationally coherent institutions and practices but what this misses is that institutions do not simply constrain firms in consistent ways across an economy; rather, institutions sometimes have partial coverage within countries, they can promote the use of some practices as opposed to simply constraining them, and the impact of one institution may offset another. For practitioners in MNCs, understanding this diversity is a crucial consideration in such issues as investment decisions. For example, while an index or measure of national institutions may suggest certain adaptations to local context are necessary, in practice diverse patterns of practice associated with regions within countries may allow greater choice for MNCs.

A full copy of the paper can be obtained at:

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