

Surveying Employment Practices of Multinationals in Comparative Context: Integrating and Differentiating National Systems

1. Introduction

Multinational companies (MNCs) have major effects on employment practices in the host environments in which they operate (Edwards and Walsh, 2008). Debate has been dominated by the issue of the resolution of the global-local tension in management practice. This study will go beyond this problematic, by addressing how far and why this tension varies between MNCs from the same home country and how the tension is played out in different host environments. It addresses the simultaneous ways in which MNCs are integrating some practices across national employment systems and differentiating others. The research will be organised around three inter-connecting themes. The first is the set of interactions between and within home and host national employment systems. Second come the forms that international integration of business operations within MNCs are taking, involving both segmentation and coordination across borders. Third, the relationship between the context of a given host environment and the role of the respective national operations within internationally integrated MNCs. Addressing these questions requires a comparative analysis of MNC operations in different host environments. The construction and interrogation of a unique international survey dataset provides the means to do this.

The proposing team is the founding member of an international network of academics conducting parallel surveys of MNCs and employment practice in four countries: Ireland, Canada, and Spain as well as the UK. The surveys are the most comprehensive investigations of the employment practices in MNCs in their respective countries. Each documents the variety of employment practices among MNCs and explores the level at which decisions on such issues are determined, how practices are transferred across borders, and how policies are monitored and enforced. An account of the design and method and an overview of the findings of the UK survey (funded by ESRC, Award RES-000-23-0305) are provided in Edwards, T. et al. (2008) and Edwards, P. et al. (2007), respectively. The other three country surveys are overviewed by Bélanger et al. (2006, Canada), Gunnigle et al. (2007, Ireland) and Quintanilla et al. (forthcoming 2009, Spain). To date, the survey data have been analysed independently at national level (www2.warwick.ac.uk/fac/soc/wbs/projects/mncemployment). The proposed research will extend this in an exciting and novel direction. Specifically, cross-national comparative analysis of the closely co-ordinated surveys will extend understanding of the factors underpinning patterns of similarity and difference. The funding will provide the means to transform data from the surveys into one integrated dataset, forming the empirical basis for an unprecedented analysis of MNCs in different countries.

The four countries allow comparisons both between those which have strong similarities and those with greater differences. Comparison between the UK and Ireland lends itself to a 'most similar research design' in which the cases share many characteristics, sources of variation are reduced and differences can be attributed to distinctive features (Djelic, 1998). Both countries offer an Anglophone, 'liberal market' platform from which MNCs can service the European market. Both have 'voluntaristic' systems of industrial relations (IR) and 'single channel' forms of employee representation. Yet there are also differences. Foreign direct investment (FDI) started earlier in the UK, but inwards FDI now plays a more prominent role in Ireland, accounting for a higher proportion of output than in the UK. Recent institutional trajectories also diverge: in Ireland national-level concertation has delivered a series of agreements on wages policy and other matters, whereas the UK has seen the disappearance of virtually all supra-firm IR institutions. The study will treat the two countries, not as exemplars of a fixed liberal market system, but as national systems with core similarities and variations on the theme (Crouch, 2005).

In different ways, Canada and Spain introduce greater degrees of differences into the research design. By so doing the potential for a most similar research design 'to systematically bias research by favouring some forms of explanation at the expense of others' (Wailles, 1999: 1024) can be avoided. The history and motivation for MNC activity in Canada has been dominated by its proximity to the world's largest economy, the US, and by its abundant natural resources. Like the UK, Canada became a significant destination for FDI early on and there is growing concern over MNCs' potential role in 'hollowing out' Canada's economy as headquarters, R&D and knowledge-intensive functions become concentrated in the US (Arthurs, 2000). In IR, Canada shares some features with Ireland and the UK, notably a tradition of single channel

representation, but differs in the strong legal framework which underpins the system (Thompson and Taras, 2004). In Spain, substantial inwards, and latterly outwards, FDI is a recent phenomenon, reflecting rapid economic growth since the transition to democracy at the end of the 1970s and subsequent EU membership and integration into Europe's single market. In industrial relations, the Spanish case introduces further variety since there is a complex web of legal regulations that ostensibly constrain MNCs' employment practices, although *de facto* there is considerable flexibility for employers. A further contrast is the dual channel system of representation, characterised by the co-existence of trade unions and works councils and by mandatory rights to consultation within firms (Martinez Lucio, 1998). In sum, the four countries allow varying degrees of similarity and difference to be investigated.

2. Research Aims: MNCs and the Integration and Differentiation of National Systems of Employment

The theme framing the research is the role of MNCs in both integrating and differentiating, between and within, national employment systems. Integration of national systems stems from the ways in which MNCs are building stronger linkages between their international operations (Dicken, 2007), and will be explored at two levels. The first is the basic configuration of the firm and concerns the extent to which the functions of operations in different countries are similar or different, and the ways in which business activities are integrated across countries (see below). The second concerns the presence, and forms, of any transnational dimension to MNC employment practice: formal structures and/or more informal mechanisms of cross-border coordination. Differentiation between countries also relates to the configuration of MNCs, arising from their spatial decisions to locate different functions according to the inherent properties of different national systems in terms of costs, skills, forms of flexibility, etc. (Dedoussis, 1995). The role of MNCs in consolidating differences between host systems inverts the logic of adaptation, prominent in the literature, under which MNCs 'take' local systems as they find them; rather, they shape these systems and are in turn shaped by them (Meardi and Tóth, 2006). Differentiation within host systems can arise in at least three ways. First, through 'country of origin' effects (Ferner, 1997), under which MNCs implement employment practices associated with their respective home countries. Second, through variation in the extent to which different employment practices are subject to tight control by MNCs or left to the discretion of national operations, reflecting considerations of both choice (some aspects of practice being deemed more strategic than others) and constraint (the impact of local institutions) (Rosenzweig and Nohria, 1994). Third, and related, is variation in the pattern of central determination and local discretion according to workforce group, including the contrast between managers and non-managerial employees (Kristensen and Zeitlin, 2005).

The study will go beyond, but not dispense with, the analysis of the global-local tension that has dominated scholarly analysis (see Edwards and Kuruvilla, 2005). This analysis has been framed by two longstanding debates. One is the extent to which MNCs are shaped by their national origins. Many studies in the 1990s demonstrated that most MNCs retain strong links with their country of origin, with their approach being shaped by the home business system (e.g. Doremus et al., 1998). More recently, however, some observers have found evidence of convergence towards 'dominant' practices, influenced by the US model (Pudelko and Harzing, 2007). The second debate concerns the extent to which MNCs are constrained by host business systems. While some have argued that 'adherence to local practices is the dominant influence' on MNCs' employment practice (Rosenzweig and Nohria, 1994: 250), others have emphasised the malleability of host systems (Kostova et al., 2008). The study aims to capture the multiple interactions between home and host country influences, and therefore advance these debates, through i) examining the behaviour of MNCs of the same national origin in different host environments, and ii) exploring the rather neglected implications of heterogeneity within home countries. It will reach beyond the debates through its exploration of the implications for national IR systems of the concurrent tendencies of greater integration and differentiation within MNCs. Analysis of these pressures can explore whether the extent to which MNCs are adapters or innovators within national systems depends not only on which countries, types of practice or workforce groups are under consideration but also on the configuration of MNCs and the roles of national subsidiaries. Genuinely comparable work using large samples that addresses these multiple sources of variation shaping multinationals' employment practice has been lacking.

Interactions within and between National Systems

A key issue concerns how practice in one nationality of MNCs compares with others. As bearers of the traits of the national business systems in which they originate, MNCs may differ in their employment practices

according to nationality. Insofar as this is the case, the weaker are the constraints posed by the host system, the more clearly will the distinct national preferences of MNCs show through. The varying degrees of centralisation exhibited by MNCs of different nationalities within a given host country has, for example, been extensively examined (e.g. Child et al., 2001). Yet few studies have looked at the approach of MNCs of the same nationality across countries (Fenton O’Creevy et al., 2008). It is plausible that the operations of MNCs in countries with more deregulated labour markets will exhibit clearer evidence of home country effects when compared with those in more regulated countries. Thus there may be variability in the extent to which distinct country of origin effects hold across host countries. The research question which follows is framed in two ways:

- 1ai. Is variation between MNCs of different nationalities greater in some host countries than in others?
- 1aii. Is there variation between MNCs of a given nationality across different host countries?

These lines of analysis will be extended to examine i) the extent to which patterns of home country influence on various employment practices vary, or remain similar, across host countries, and; ii) the extent to which patterns of home country influence over managerial employment practice, as compared to that for non-managerial employees, varies across host countries.

Variations in country of origin influences may also arise at source, reflecting heterogeneity within countries (Crouch, 2005). Nationality will not give rise to uniform effects; its impact is more varied, shaped by such factors as the range of management styles exhibited in the home country – such as those between the New Deal union and HRM union substitution approaches in the US (Almond and Ferner, 2006) – or differing sectoral conditions (Colling and Clark, 2002), which underpin intra-model variation. A further research question follows:

- 1b. In what, if any, ways do MNCs of a given nationality display variability in their policies and practices in a given host country; and are similar or different patterns evident across host countries?

International Integration and HR Strategy in MNCs

MNCs can derive synergistic benefits from integrating their operations across borders, with two main configurations being evident (Hill and Hoskisson, 1987). Some MNCs are configured through segmentation, with local operations taking on distinct roles that differ markedly from others in technological and occupational terms. National operations supply others, are supplied by others or both, resulting in the MNC being linked through ‘chains’ (Wilkinson et al., 2001), creating scope for synergies from vertical integration. Other MNCs are configured through replication in which local operations perform similar functions to each other, have comparable technologies and occupational profiles and serve a local or national market (Ivarsson and Alvstam, 2005), creating the potential for synergies from horizontal integration (Gupta and Govindarajan, 1991). In contrast, some MNCs are not configured to realise synergies from international integration, pursuing instead ‘financial economies’ (Hill and Hoskisson, 1987) through the operation of an internal capital market amongst autonomous businesses.

International integration gives rise to stronger pressures for a transnational dimension to employment practice in MNCs when compared with non-internationally integrated MNCs (Edwards, 2007; Marginson, 1992). This dimension may embrace formal arrangements such as international management-policy making bodies (Tregaskis et al., 2005) or European Works Councils (Marginson et al., 2004). It also includes informal channels that lead to cross-border coordination, such as management development and succession planning programmes that, through socialisation and forms of networking, facilitate the diffusion of knowledge (Frost and Zhou, 2005). The extent and form of any transnational dimension may differ according to MNCs’ configuration. Segmentation may limit the attractiveness of global HR policies given that the technologies deployed and the occupational profile of each site differ markedly (Dedoussis, 1995). Yet, realising the synergies from segmentation may prompt MNCs to build a transnational dimension focused on forms of management networking aimed at promoting a smooth exchange of components and knowledge across countries. Such MNCs may also be vulnerable to disruption from local disputes (Marginson, 1992) with this risk being reduced by establishing formal structures to ensure consistency in practice across borders. Amongst replicated MNCs, the incentives for managers to develop a transnational dimension to employment relations differ (Edwards and Zhang, 2008). Since production routines are identical across countries, benefits derive from elaborating common policies and avoiding precedent-setting in a context where workforces, as well as managers, can more readily compare across borders. The extent of the transnational dimension will be shaped

by whether MNCs tailor their products to national markets or standardise across them, with impetus towards a transnational dimension being relatively stronger amongst the latter. The focus on international integration and the transnational dimension suggests two further research questions:

In what ways is MNC organisational configuration associated with:

2a: the existence of formal international policy-making bodies and the presence of international IR structures?

2b: informal practices that promote management socialisation and networking between sites?

Are patterns under both consistent across countries?

Subsidiary Roles and the Character of Employment Relations in MNCs

Given that forms of configuration differ, the company level is not the only relevant unit of analysis. An examination is also needed of the roles that subsidiaries play, how these roles differ and how this is tied to such issues as control mechanisms (e.g. Bouquet and Birkinshaw, 2008; Jarillo and Martinez, 1991; Luo, 2005). To the extent that MNCs differentiate the roles of national units from one another, there are profound implications. Subsidiaries are likely to differ in the extent to which they are the source of innovations that are spread to other parts of the company and in their capability to shape the formation of company policies. Case study evidence concerning the phenomenon of 'reverse diffusion', whereby MNCs identify practices operating in their foreign operations and subsequently transfer these to operations in other (including the home) countries, suggests that differences in national institutions mean that actors in subsidiaries are differentially placed to engage in this process (Edwards and Ferner, 2004; Edwards et al., 2005). Reaching beyond national effects, it is plausible that subsidiaries with strategic roles, through the generation of R&D expertise within the wider company or possession of an international product 'mandate' (Birkinshaw and Hood, 1998), are those most likely to be the source of new practices implemented elsewhere. Moreover, within segmented MNCs knowledge flows may mirror the flows of other resources across the company: the nature of the linkages between a national subsidiary and others – as supplier and/or recipient of services or components within the multinational – may shape whether it is the source of new practices. This sets up a final research question:

3: To what extent are the subsidiaries of MNCs the source of cross-border diffusion of practices? Are there patterns according to parent nationality, host environment, the presence of mandates and the extent to which the subsidiaries are linked through cross border flows of components and services?

3. Measures

The research questions demand that we are able to identify a number of variables as follows:

1) Five key *independent* variables will be available:

- Nationality, defined by country or a group of countries with shared characteristics e.g. Scandinavia;
- Intra-firm linkages, defined as whether sites supply others, are supplied by others, both or neither;
- Standardisation, measured by the degree to which the product or service is adapted to national markets or standardised across regions or the world;
- R&D and mandates, measured by a 1 to 5 scale concerning the extent to which expertise and responsibility are held in the national operations;
- The largest occupational group (based on Standard Occupational Classifications) adopted as a proxy for skills.

2) A substantial range of *dependent* variables will be available for the analysis, such as:

- The character of employment policy and practice at local level - examined through the surveys' focus on four broad issues: pay and performance, training and development, employee communication and involvement and employee representation, and data on the degree to which national management have discretion over policy and practice (questions 1a and 1b);
- The transnational structure of the HR function, including the prevalence of international HR policy making committees, international networking among HR practitioners and shared service centres (question 2a);
- The existence of industrial relations structures that are cross-border in nature (e.g. EWCs) (question 2a);
- The transnational nature of the HR policy - examined through the global reach of policy on performance management and talent management (question 2b);

- The transnational nature of organisational learning - examined through the mechanisms that firms adopt for the international exchange of knowledge and the adoption of international teams for non-managers (question 2b);
- The reverse diffusion of HR knowledge from subsidiaries to the parent – examined through whether practices identified as originating in the subsidiary are adopted by other parts of the company (question 3).

3) A range of comparative *control* variables will be utilised as appropriate, for example:

- National size of the firm, defined as the number of employees nationally;
- Global size of the firm, defined as number of employees in the worldwide operations;
- Industry, defined as the primary industrial sector of the firm based on national Standard Industrial Classifications;
- Ownership, defined as publicly or privately owned;
- Type of multinational, defined as majority (51% or more) home or overseas owned.

4. Process

This work is based on an international comparative survey design, using parallel national surveys yielding a total of 1097 responses from MNCs operating in the UK (n=302), Ireland (n=260), Spain (n=327) and Canada (n=208) (see technical appendix). Key features of the process and method underpinning the project are:

a) comparative parallel survey design - parallel surveys in each country were created collaboratively by the research teams, devising equivalent questions to allow the same phenomena to be explored, whilst taking account of national context. The same criteria were used to identify the survey population in each country and rigorous checking processes adopted in establishing each national population list. The same target respondent was identified. There was some variation in the timing of each national survey, with fieldwork beginning in late 2005 (UK and Canada) and finishing in mid 2008 (Spain) (see Technical Appendix for details). Such a time lag between surveys used in comparative analysis is not unusual (e.g. Whitfield, Marginson and Brown 1994; Coutrot, 1998; Schnabel, Zagelmeyer and Kohaut, 2006). Evidence suggests (c.f. Tregaskis and Brewster, 2006) small temporal variation as in the case of the UK, Canada and Ireland, is likely to have an insignificant impact on a wide range of variables and even a 2 year time lag may have a marginal impact. The extent of the problem can be feasibly investigated by comparing response profiles between the first and last tranches of interviews within a national survey. The survey was administered face-to-face in all countries with the exception being the Canadian case where geography was prohibitive. Instead the questionnaire was adapted for self-completion and, in the first instance, mailed to named respondents, and subsequently administered on-line. This comparative parallel design represents an alternative to integrated or post-hoc designs: integrated designs place an emphasis on the collaborative development of near identical questions and thus tend to focus on structures and practices that lend themselves more readily to transnational comparison (e.g. Cranet); post-hoc comparative designs attempt to align questions from similar national surveys at the point of data analysis (e.g. WERS) which constrains the scope of comparisons. The parallel design here will help illuminate research questions which require exploration through equivalent indicators.

b) the parallel instrument - the survey instrument contains questions that are:

- identically framed e.g. country of origin, size thresholds were phrased in exactly the same way in each survey. In other instances countries added or reduced response options because of institutional differences or question saliency in each country. Thus, data transformation is required to produce equivalent data.
- functionally equivalent i.e. questions were asked about the same functional area, but because the norms and institutions governing this activity vary each national question was adapted to take this into account. For example to explore the influence of unions the survey instrument needed to reflect different national arrangements underpinning union presence within firms. Here again data transformations are required.
- thematically equivalent i.e. questions asked about the same phenomenon, but due to institutional differences the structures and practices examined were unique to each country. These questions provided valuable national contextual insights that expand upon some of the functionally equivalent and identical data.

The questionnaire was designed in English (the working language of the international research team) and subsequently translated into the home language of the survey country. Back-translation of each national

questionnaire into English was undertaken as a means of assessing that the equivalence in meaning had not been distorted through language translation (c.f. Brewster et al. 1996; Hult et al. 2008).

c) construction of the comparative dataset - this will involve the following:

- Preliminary work to identify comparable independent, dependent and control variables, has already been undertaken, and confirms the feasibility of the lines of analyses defining this proposal. Through face-to-face meetings, funded by 'seedcorn' resources secured by each national team, the identical and equivalent questions have been identified and the code book defining the SPSS transformations will be available by April 2009. This work has been led by an international working group, consisting of representatives from each of the national teams, that operates to co-ordinate activity within each country team and integrate outputs internationally.
- Construction of the national comparative variables from the UK dataset, with each of the other countries independently funding the construction of their national comparative variables. This process will require syntax to be written which converts the original national variable into a new comparative variable. The code book will be the integrating tool, and the work overseen by the international working group.
- Integration of the national data into one comparative international dataset. This process will be centralised, to minimize error, with an expert located in the UK undertaking the merging process. The international working party will oversee the merging of the national datasets and trouble-shoot on any queries.
- Cross checking the integrity of the international data. Assuring the integrity of the data will lie with the working group. This will involve dividing the data into blocks of variables for which sub-groups of subject experts (e.g. on employee representation or learning) from each team take responsibility. This has the advantage of checking data across countries rather than within countries only and parallels a division of labour already successfully adopted for the preliminary work on the code book. The checking process will be time intensive, involving: variable by variable checks between the merged and unmerged data; and a revisited discussion on the conceptual utility of the transformed data. This will be achieved through both face-to-face and virtual meetings.

d) modes and scope of comparative analysis - the international dataset lends itself to two modes of comparative analysis. Model 1 involves undertaking a set of parallel multivariate analyses, by partitioning the dataset according to host country. Under a regression analysis, for example, expectations about the impact of host country environments could be explored by examining differences in Beta coefficients and overall explanatory power and variation accounted for, respectively capturing 'uniformity' and 'determination' effects (Whitfield et al., 1994; Coutrot, 1998). Model 2 involves pooling data, and in regression analysis including a host country dummy variable. In effect, other right hand side variables are constrained to have the same Beta coefficients. A refinement would be to include interactive terms with the country dummies where sub-sample sizes allow. Model 1 analysis is more appropriate when examining national / local phenomena in MNCs across host countries, particularly where functionally equivalent variables are involved. Model 2 analysis is better suited to transnational structures, policies and practices. To better understand the relative advantages of the two approaches, a given issue can also be explored using both modes of comparative analysis.

Considerations of functional equivalence and, for non-core questions, data availability in each national data set, mean that the scope of comparative analysis will vary according to issue, with some involving 2- and 3- rather than 4-country comparisons.

5. Outputs

There will be a range of outputs aimed at an academic audience which will take the form of conference presentations and subsequently journal articles. In this respect, arrangements have been agreed with CRIMT (Centre de Recherche Interuniversitaire sur la Mondialisation et le Travail) for a major conference in Montreal in 2011 and agreement has been reached for a symposium for the *Industrial and Labor Relations Review* if funding is secured. It is anticipated that the outputs will form the basis for an expansion of this research with a second wave of new national surveys under discussion and in addition the project has the potential to provide a benchmark for comparative research on other issues. For practitioners, the outputs will present an unprecedented benchmarking tool and a range of links with practitioner bodies (e.g. CIPD, IILS) have been arranged with commitments given by these bodies to assist with the dissemination of findings.