Aligning corporate transfer intentions and subsidiary HRM practice implementation in multinational corporations

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ABSTRACT

We study HRM practice implementation in subsidiaries of multinational corporations (MNCs) and diverge from extant research by focusing on alignment, which we conceptualize as the degree to which subsidiary implementation of HRM practices corresponds with the subsidiary-specific transfer intentions of corporate headquarters. In explaining alignment we examine different aspects of the headquarters–subsidiary relationship, namely, the extent of formal control, interpersonal relationships and subsidiary strategic HRM capabilities. Based on a sample of 105 subsidiaries from 12 Nordic MNCs, the results highlight the importance of expatriates, trust and the strategic HRM capabilities of the subsidiary HR function. We conduct post hoc analyses to shed further light on (i) the relationship between our independent variables and the two separate components of alignment – corporate intentions and subsidiary implementation, and (ii) two different types of misalignment – excessive and insufficient.

1. Introduction

Being embedded in numerous national business settings and operating through foreign units comprising diverse functions, multinational corporations (MNCs) face unique competitive, organizational and institutional complexity (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Kostova & Roth, 2002; Milliman, Von Glinow, & Nathan, 1991). In the context of corporate-practice transfer to foreign units, researchers have emphasized the importance of taking this complexity into account, rather than adopting a monolithic view of MNCs. The diversity in subsidiaries’ roles and functions, and the heterogeneous competitive environments they face (Gamble, 2010; Wright & Snell, 1998), call for headquarters to tailor its practice-transfer intentions across its foreign subsidiaries (Evans, Pucik & Björkman, 2011; Milliman et al., 1991).

Consistent with viewing the MNC as a differentiated network (Ghoshal & Bartlett, 1996; Hedlund, 1986), it is reasonable to assume that, irrespective of MNC strategy (e.g. global, multi-domestic), corporate intentions about the transfer and implementation of HRM practices in foreign subsidiaries will not always be homogenous. While extant literature on HRM in MNCs tends to draw on the country-of-origin effect to explain the degree of resemblance of subsidiary HRM practices to headquarters, this does not take into account the potential for corporate-level HR managers in MNCs to make conscious choices to differentiate or segment their HRM policies and practices across different subsidiaries (Almond, 2011). This study addresses this deficiency in existing research by incorporating the explicit, subsidiary-specific intentions of corporate headquarters.

In a differentiated network, with subsidiaries varying in terms of specialization and strategic role, effective global strategy implementation necessitates trust and a shared understanding between MNC headquarters and the subsidiary regarding the subsidiary’s purpose and goals (Kostova & Roth, 2002; Tsai & Ghoshal, 1998). In terms of HRM strategy in foreign subsidiaries and its connection to performance-related outcomes, it is therefore not the degree of headquarters HRM practice transfer or subsidiary autonomy per se that are likely to be most important, but the...
degree to which there is alignment between corporate intentions and subsidiary implementation. This kind of alignment can lead to, among other things, sustainable competitive advantage (Gottschalg & Zollo, 2007), improved strategy implementation (Van Riel, Berens, & Dijkstra, 2009), and manufacturing performance (Joshi, Kathuria, & Porth, 2003).

Furthermore, a focus on alignment also better acknowledges and provides much needed explanations for the corporate ‘intended’ versus subsidiary ‘implemented’ gap, which has been raised specifically in the international HRM literature (Khilji & Wang, 2006; Wright & Nishii, 2013). Given that HRM implementation in foreign subsidiaries continues to represent a significant managerial challenge (Evans et al., 2011), investigating the factors that drive alignment is important for both theory and practice.

The aim of the present study is thus to shed light on the conditions under which headquarters’ HRM transfer intentions and subsidiary HRM practice implementation align. In taking headquarters’ transfer intentions into account this study shifts the focus from implementation and practice transfer to alignment, and expands on previous studies where the focus has been on identifying different external conditions and institutional pressures under which subsidiary practices are more likely to resemble those of headquarters and/or local firms (Rosenzweig, 2006).

The importance of control and communication, and the view that alignment will be the outcome of a two-way social process (Björkman & Lervik, 2007), we develop and test hypotheses on a sample of 105 subsidiaries within 12 Nordic MNCs. Capturing alignment by pairing the responses of corporate HR managers regarding subsidiary-specific HRM practice transfer intentions and the responses of subsidiary HRM managers regarding practice implementation, we examine the effects of formal HRM control, expatriate presence, headquarters–subsidiary frequency of interaction and trust, and the HRM capabilities of the subsidiary HR function. The testing of the hypotheses does not allow us to determine whether these variables significantly influence one or both of the two components of alignment, or whether misalignment has come about due to subsidiaries having implemented HRM practices to a greater or lesser extent than intended by corporate headquarters. We therefore perform additional post hoc analyses to examine (i) the relationship between our independent variables and the two separate components of alignment – corporate intentions and subsidiary implementation, and (ii) two different types of misalignment – excessive and insufficient.

2. Corporate transfer intentions and subsidiary practice implementation

Research on HRM practice transfer within MNCs has mainly focused on the effects of various external and structural factors on transfer (e.g., Björkman & Lu, 2001; Hannon, Huang, & Jaw, 1995; Rosenzweig & Nohria, 1994). In contrast, in this study we focus on alignment, conceptualized as the degree of similarity between corporate transfer intentions for a specific subsidiary and that subsidiary’s implementation of HRM practices. We argue that since the nature of alignment is more reciprocal than that of transfer, alignment can be viewed as the result of one of two things. First, alignment can be viewed as the extent to which a particular subsidiary has implemented HRM practices that directly correspond with corporate intentions regarding those practices for that particular subsidiary. And second, alignment can be viewed as the result of corporate HR adjusting its intentions for HRM practice implementation for a particular subsidiary. The importance of considering the transfer intentions of headquarters when analyzing organizational practice implementation has been touched upon in previous studies. However, instead of asking headquarters explicitly about their transfer intentions for each subsidiary, these studies have relied on different proxies from which to infer overall corporate transfer intentions, such as MNC strategy (Myloni, Harzing, & Mirza, 2007), the values of top management toward HRM (Bae, Chen, & Lawler, 1998) and subsidiary market scope (Fenton O’Creevy, Gooderham, & Nordhaug, 2008). In a similar manner, studies incorporating the country-of-origin effect use the location of the MNC’s home country in making arguments about the propensity of the MNC to transfer HRM practices from headquarters, but then do not acknowledge whether corporate managers make conscious choices to differentiate these intentions across subsidiaries (Almond, 2011).

Szulanski (1996) labeled the first stage of practice-transfer as “initiation” and defined this as all events that lead to a decision to transfer a practice, after which the “implementation” stage takes place. In the MNC context, however, there is one additional intermediate stage. When a transfer decision has been made, headquarters still has to decide upon the extent to which the practice in question is to be transferred to the different subsidiaries. In line with the view of the MNC as differentiated network (Hedlund, 1986), where different MNC subsidiaries contribute in unique ways to the MNC as a whole, we argue that this also implies that headquarters is likely to have different intentions regarding what practices to implement in a specific subsidiary and to what extent.

According to Tubbs and Ekeberg (1991) intentions are arrived at through a choice process which takes organizational and environmental factors into account. Compared to initiation, which depicts whether or not there is a need to create and transfer a practice, transfer intentions are arrived at after the practice-transfer decision has been made by taking the specific needs of the subsidiaries into account. In our conceptualization of alignment we therefore regard headquarters as an active player that adjusts its transfer intentions to accommodate the specific needs of the subsidiaries.

To act upon its intention and transfer the desired practices to its subsidiaries, headquarters can choose from a number of different mechanisms through which to communicate its intentions and facilitate their implementation, such as direct communication, formal control, expatriation and more long-term relationship building (e.g. Smale, Björkman, & Sumelius, 2013). While there are many differences between these mechanisms, one property worth noting in the context of alignment is that they create different kinds of feedback loops between the headquarters and the subsidiary. Tubbs and Ekeberg (1991) hold feedback loops as an important aspect of achieving intended outcomes since the initial intention might have been unrealistic and needs to be adjusted. Similarly, researchers have noted that headquarters might not always be aware of the requirements or needs of all of its subsidiaries (Gamble, 2010; Kostova & Roth, 2002; Meyer & Rowan, 1977) which might lead to unrealistic practice-transfer intentions.

3. Hypotheses

Building on the view of the MNC as a differentiated network (Hedlund, 1986) and alignment being a reciprocal, social process (Björkman & Lervik, 2007), we argue that alignment will be driven by (a) the effective communication and understanding of headquarters’ intentions by the focal subsidiary, and of the focal subsidiary’s needs and abilities by headquarters; and (b) by the responsiveness of the focal subsidiary to headquarters’ intentions, and the responsiveness of headquarters to the focal subsidiary’s needs and abilities. Our hypotheses thus represent conditions under which (1) two-way communication about HRM practice implementation is most likely to be effective, and (2) the responsiveness of both parties is most likely to occur.
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