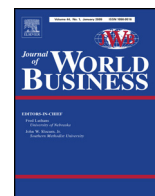




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## Locals know best? Subsidiary HR autonomy and subsidiary performance

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### ABSTRACT

In this paper we examine the relationship between subsidiary HR autonomy and subsidiary performance, the mediating role of absenteeism, and the moderating effect of cultural distance and institutional distance. We find that subsidiary HR autonomy is associated with higher subsidiary performance and that this relationship is mediated by employee absenteeism. We also find that the negative relationship between HR autonomy and absenteeism is stronger in the cases of low cultural and low institutional distance and that the positive relationship between HR autonomy and performance is stronger in the cases of low institutional distance between home and host country

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### 1. Introduction

Managing human resources is a complex task for any organization. It is a particularly demanding undertaking in the case of multinational companies (MNCs), which face heightened levels of complexity brought about by the fact that they often operate across countries with diverse institutional and cultural environments. It is widely thought that the design on an MNC's strategic international human resource management (IHRM) system has performance implications for both the MNC as a whole and its subsidiaries (Schuler et al., 1993; Schuler, Dowling, & De Cieri, 1993; Taylor et al., 1996; Taylor, Beechler, & Napier, 1996). One key aspect of this design is the degree to which subsidiaries are granted autonomy with respect to HR, that is, the degree to which subsidiaries are free to make decisions regarding HR policies and practices independent of headquarters (HQ).

While research has started examining the conditions under which a subsidiary is granted HR autonomy (Belizon, Gunnigle, & Morley, 2013; Belizon, Gunnigle, Morley, & Lavelle, 2014; Edwards, Tregaskis, Collings, Jalette, & Susaeta, 2013; Farndale et al., 2010; Fenton-O'Creevy, Gooderham, & Nordhaug, 2008; Ferner et al., 2011; Smale, 2008; Smale, Björkman, & Sumelius, 2012; Smale, Björkman, & Sumelius, 2013), an equally important question that

has not been addressed is whether and, if yes, under what conditions, subsidiary autonomy “pays off” in terms of superior organizational performance. To shed light on this question, in this paper we investigate the relationship between subsidiary HR autonomy and subsidiary performance, and examine the mediating role of absenteeism and the moderating roles of cultural and institutional distance on the HR autonomy – performance link.

We draw on combined arguments from HRM and IB literatures; namely, from HRM we draw on research on strategic HRM, and in particular, on the resource based view, and from IB we examine the global integration/local responsiveness framework and its underpinnings provided by agency theory and institutional theory. Our study takes a subsidiary perspective (Smale, 2008; see also, Kostova, Marano, & Tallman, 2016), given that subsidiaries are considered to be the basic analytical units in MNC (Tian & Slocum, 2014), and that coordination processes may vary significantly between subsidiaries of the same MNC (Wolf, 1997).

Enhanced understanding of the impact of subsidiary HR autonomy on subsidiary performance will contribute insight to the discussion on how HRM can impact positively on performance in the context of MNCs (Rosenzweig, 2006; Schuler et al., 1993) and to research on strategic orientation of MNCs (Taylor et al., 1996). Further, examining outcomes of subsidiary HR autonomy will also contribute to the growing body of research on the organization of HR activities in MNCs (Wolf, 1997) and, specifically, on HRM integration mechanisms in MNCs (Ahlvik, Smale, & Sumelius, in press; Smale et al., 2013). The organization of HRM in MNCs must reflect the imperatives of both global integration and local

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responsiveness, which makes understanding of the inherent trade-offs between parental control and subsidiary independence a critical issue for international HRM scholars. In this context, our results are also relevant to work on transfer of practices with MNCs (e.g., Björkman & Lervik, 2007; Edwards, 2004; Kostova & Roth, 2002; Myloni, Harzing, & Mirza, 2004; Parry, Dickmann, & Morley, 2008; Pudelko & Harzing, 2007). Finally, our study is also in line with research that has highlighted HQ–subsidiary relationships, and issues of organizational design and control in particular, as core themes in the broader field of international business (Ambos & Schlegelmilch, 2007; Hoenen & Kostova, 2015; Kostova et al., 2016).

### 1.1. Performance implications of strategic HRM systems

The starting point of our argument is that the way human resources are leveraged and the way HRM activities are organized within MNC are central to organizational performance (Taylor et al., 1996). This thinking stems directly from the strategic perspective towards HRM that has suggested that the HRM system in an organization can be designed so that the organization can achieve a competitive advantage through its people, and that an integrated combination of HR activities that are internally consistent and reinforcing, and implemented in a system-like manner, contribute to organizational performance (Becker & Gerhart, 1996; Huselid, 1995; Jiang, Takeuchi, & Lepak, 2013; Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009; Lepak, Liao, Chung, & Harden, 2006; Snell, Youndt, & Wright, 1996).

Although a number of theoretical perspectives have contributed to SHRM research, the resource-based view (RBV) has been by far the most influential one. The main premise of the RBV is that firms can obtain sustained competitive advantages by implementing strategies that exploit their internal strengths, while neutralizing external threats, and avoiding external weaknesses. Sustained competitive advantages must be valuable, rare, imperfectly imitable, and not easily substitutable. The RBV also suggests that the firm should nurture idiosyncratic attributes that can be deployed to create sustained competitive advantages (Barney, 1991; Barney, 2001). HRM scholars have built on this work and have explicated how, if properly managed, human resources can be developed to possess all the requisite characteristics of sustained competitive advantage – and can, in turn, contribute to enhanced organizational performance (Barney & Wright, 1998; Becker & Huselid, 1998; Becker & Huselid, 2006; Wright & McMahan, 1999).

There is plentiful empirical evidence for a positive the HRM – performance link (e.g., Jiang, Lepak, Hu, & Bear, 2012; Jiang et al., 2013; Peccei & Voorde, 2015; Subramony, 2009). A recent meta-analysis of studies conducted in 29 countries suggested that there is support for this relationship across national contexts (Rabl, Jayasinghe, Gerhart, & Kühlmann, 2014). A sizable body of research has suggested that the HRM–performance link also holds in MNCs, and specifically, in MNC subsidiaries operating in various countries (Björkman, Fey, & Park, 2007; Fey & Bjorkman, 2001; Fey, Björkman, & Pavlovskaya, 2000; Fey, Morgulis-Yakushev, Park, & Björkman, 2009).

A system's perspective towards managing HR also includes the notion that the configuration of HR activities has an impact on organizational performance (Fey & Bjorkman, 2001). When discussing the application of the RBV to HRM, Barney and Wright (1998) argue that in order for the human resources of a firm to provide a source of competitive advantage, the firm's HRM system must be optimally organized so that it can exploit the resources in a way that allows for their full potential to be realized. An important characteristic of HRM systems in MNCs is the degree to which HRM activities in the company are globally integrated or decentralized at the subsidiary level (e.g., Taylor et al., 1996). From a subsidiary

standpoint, a core question with regard to this characteristic is whether the subsidiary is required to manage its human resources in ways prescribed by the parent company or whether it is allowed make independent local decisions (Smale et al., 2012; Smale et al., 2013; Smale, 2008). An equally important question is whether subsidiaries perform better when they make independent HRM decisions or when they are told what to do by their parent company (Rosenzweig, 2006; Smale et al., 2012). The latter issue is the key question that motivates our paper.

In this paper we focus on subsidiary HR autonomy, which we define as the extent to which subsidiaries are free to make decisions independent of HQ with regards to the nature of HR policies and the content of practices deployed at the subsidiary. A core concept in strategy research, autonomy reflects the division of the decision-making authority between the subsidiary and the MNC HQ (see Garnier, 1982), with subsidiary HR autonomy being the highest in cases where HQ do not exert control over local HR policy and practices.

There has been a recent upsurge in interest in subsidiary HR autonomy and related constructs. The labels used by different researchers have differed, with some scholars referring specifically to HR autonomy (Belizon et al., 2013) and others – to discretion over HR issues (Ferner et al., 2011), centralization of control of HR policies (Fenton-O'Creedy et al., 2008; Ferner et al., 2004), control of subsidiary employment policies (Bélanger, Lévesque, Jalette, & Murray, 2013; Edwards et al., 2013), formal HRM control (Ahlvik et al., in press) or centralization of HR decisions (Reiche, Harzing, & Pudelko, 2015). A body of work has also grown around HRM integration mechanisms, a more holistic approach to coordination and control issues of HRM in MNCs, that examines several global integration mechanisms (people-, formalisation-, information- and centralisation-based; Smale et al., 2012; Smale et al., 2013; Smale, 2008)

Regardless of the terminology used, studies have defined autonomy similarly to how we do in this paper, as the extent to which the subsidiary is free to determine HR policies and practices (for the only exception we identified, see Edwards et al., 2013). Despite the apparent proliferation of papers, this emergent research stream has focused on HR autonomy antecedents but has overlooked the *subsidiary-level outcomes* of autonomy. Scholars have implied positive outcomes (for example, Ferner et al., 2011; suggested that choices regarding HR autonomy may be related to experimentation and indigenous or exogenous innovation) but have not tackled the question directly. In this context, the study of the effectiveness of HRM control mechanisms in MNCs has been deemed a “fruitful issue to pursue in future research” (Smale, 2008: 180)

### 1.2. Subsidiary HR autonomy and subsidiary performance

Summing up our argument so far, research on strategic international HRM suggests that there will likely be a relationship between subsidiary HR autonomy (as one aspect of configuration of HR activities in MNC subsidiaries) and subsidiary performance. Beyond this general proposition, the literature is silent on precisely what type of HR organization (subsidiary autonomy or HQ control) is related to superior subsidiary performance. In order to gain insight into this issue, we consult research on international strategy, and in particular, the global integration/local responsiveness framework, which is central to understanding HQ–subsidiary relationships and their performance implications (e.g., Bartlett & Ghoshal, 1989; Ghoshal & Nohria, 1989; Kostova et al., 2016; Kostova, 1999; Tian & Slocum, 2014). The main premise of this framework is that, operating across countries, MNCs face the dual challenge of maintaining internal coherence across their global operations (i.e., global integration) while simultaneously achieving

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