

## **Internationalization and HR restructuring in MNCs – ‘unpacking’ the concept of convergence.**

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### **INTRODUCTION/BACKGROUND**

The opening up of regional and global markets over the last two decades has brought both pressures and opportunities for MNCs to restructure their businesses. Many firms are establishing operations in new countries as they pursue market seeking strategies, whilst the intensification of international competition means that firms are also seeking more efficient operational configurations that may involve the direct or indirect relocation of production from high- to low-cost countries (Meardi et al., 2009) and the cross-border segmentation of production (Marginson, 2000).

In 1962 Chandler observed how corporate strategy would, over time, determine a company's structure. Expanding on Chandler's approach, Purcell and Ahlstrand (1995) develop a typology of strategic decision-making, making a distinction between 'first-order' strategic decisions, such as in which markets and locations the company will operate, 'second-order' strategies, which focus upon organisational structure and, even further downstream, 'third-order' strategies which are devised at the functional level. Purcell and Ahlstrand identify linkages between the three levels of decision-making and argue that lower-order strategy will be shaped by the context of higher-order decision-making. Hence, as MNCs internationalize and restructure their business strategies as described above, this brings pressure for change to the organisational structure of the firm and also to functional level decision-making, including HRM.

With the changing role of HR in mind, the aims of this paper are twofold. The first is to explore the nature of HRM restructuring in MNCs in the context of internationalization. The second and related objective is to interrogate the extent to which there is convergence in such activity across firms originating from different countries and operating within different sectors. HRM restructuring is a broad concept that tends to be treated in a rather fragmented manner within the literature. However, in the context of Purcell and Ahlstrand's typology, it is possible to explore such activity in a structured and insightful way. That is, within the HR function there is a hierarchy of strategic decision-making, with management having to take three principal types of third-order decisions. Firstly, they need to determine long-term HR policy. Secondly, they need to devise HR processes that will support the implementation of policy. Thirdly, management need to devise the HR practices that will act to operationalise HR policy. Breaking HRM decision-making down in this manner is useful as a means of interrogating the first objective of the paper, enabling us to gain a deeper insight into how HRM is being restructured at the policy, process and practice levels and the degree of interconnectedness of that decision-making as change takes place.

Considering restructuring in the context of three types of HRM decision-making is also useful in supporting the interrogation of the second aim of this paper, that of understanding more about convergence. Hay (2000), an author examining the concept of convergence in the context of national policy-making activity, argues that there is a need to refine our understanding of the term. Critical of the simplistic 'input-output' model of convergence widely adopted in the literature, Hay proposes a more sophisticated approach which involves 'unpacking' convergence and looking at what aspects of policy-making have the potential to converge and which do not. He

identifies a number of stages at which convergence may occur, including policy, process and output. Whilst Hay's typology focuses upon national level decision-making, it can also be usefully applied to the level of the firm and to HRM restructuring. It guides us to investigate the extent to which convergence is occurring in HR policy, process and practice decision-making, and whether or not convergence in one type of decision-making results in convergence across some or all types.

In terms of the nature of HRM restructuring, this paper focuses specifically upon emerging performance management policy, process and practice within MNCs. This is because it is an area of HRM that appears to be particularly sensitive to the effects of globalization. As observed by Ferner and Quintanilla (1998), with the intensification of international competition, firms are placing greater emphasis on the evaluation and measurement of HR performance, which includes systems of employee performance evaluation and performance related remuneration. There are a number of factors driving this change, including the growing emphasis upon Anglo-Saxon oriented 'shareholder value' across firms (Almond et al., 2003).

### **Policy**

The literature suggests that, as MNCs revise their performance management policies in the context of internationalization, we are likely to see evidence of convergence in the nature of such policies across firms. One principal explanatory factor lies in the 'dominance effect'. Here, Smith and Meiksins (1995) argue that models of global 'best practice' are influenced by the characteristics of nations that are dominant in the international capitalist system 'hierarchy of economies'. Companies originating from countries that have a dominant position within the hierarchy have often been seen to develop business practices that have invited emulation from companies globally. In the HRM arena, such models of global best practice which are likely to be emulated by firms are Anglo-Saxon in nature, having emerged from the US and UK.

Khilji and Wang (2006) concur with this dominance thesis to the extent that it is at the level of HR policy determination that firms are likely to exhibit signs of mimetic isomorphism and adopt similar policy intents as other firms. However, they argue that much research to date has ignored how HR policy is operationalised and the extent to which a gap exists between HR practice as formulated by policy and its actual implementation. Hence, the authors anticipate that whilst we may observe some convergence in the nature of HR policy across firms, at the levels of HR in process and practice, a more complex picture is likely to emerge.

### **Process**

Turning to how HR processes are evolving in MNCs, a major decision facing HR management is how to find an effective balance between central control and local autonomy (e.g. Bélanger et al., 1999). Recent research into US and UK owned MNCs has revealed that the drive for efficiency, consistency and equity is encouraging companies to adopt an increasingly centralized approach to HR and standardization across operations and borders (e.g. Almond and Ferner, 2006). However, some aspects of HR are more suited to centralization than others, with the operationalisation of HRM being subject to two rival isomorphic pulls (Rosenzweig and Singh, 1991). On one hand there are the requirements of corporate policy and, on the other, the institutional constraints of the local environment in which the firm operates. Because of the heterogeneous nature of HRM, different HR issues will be 'pulled' in different directions along the centralization-decentralization continuum, with aspects such as pay determination likely to be strongly shaped by the pull of the local environment and difficult to standardize (Rosenzweig and Nohria, 1994).

## **Practice**

As firms adopt new policy approaches to performance management, change is likely to be required at the practice level. In spite of the pressure for change however, it is unlikely that general convergence in the nature of performance management practice is occurring across firms. Instead, as the literature shows, country effects tend to influence HR practice, with performance management, and pay determination in particular, being shaped by institutional factors, particularly trade unions (Hayden and Edwards, 2001; Ferner and Varul, 2000). Indeed, Huzzard et al. (2004) observe that trade unions in different countries have varying propensities to 'box and dance' with management, meaning they differ in the extent to which bargaining takes on a distributive or integrative form.

That said, unionisation differs according to sector as well as country and a study of Canadian and Australian MNCs by Long and Shields (2005) reveals differences in the nature of performance related pay across firms can also be attributed to sectoral factors. Significantly, the extent of unionisation is influential, with fewer individual performance related pay (IPRP) schemes being present in unionised firms. The nature of the industry also shapes IPRP practice, with the authors finding that such schemes are prevalent in firms operating in the financial services sector, an industry which is heavily sales and commission based.

## **METHODS**

In order to interrogate the objectives of this paper, a research design incorporating a case study approach has been adopted. During 2005 a total of 34 semi-structured interviews were conducted with HR managers at group, business area and site levels within the home countries of six MNCs. Three of these firms are Swedish-owned and three are Canadian. The case study companies operate across three different sectors, forestry, metalworking and banking, and the research design was set up to ensure that one Swedish and one Canadian firm was represented in each sector.

Investigation into the concept of convergence drives a comparative approach to the research. In this case, the choice of Swedish- and Canadian-owned MNCs was informed by a number of factors. Firstly, much of the extant research concerning the evolution of HR in MNCs focuses on US owned companies (see Almond and Ferner, (2006) for a major study). Within Europe some comprehensive studies have also been conducted (e.g. Ferner and Varul, 2000) but on the whole research remains limited across a number of countries, including in Canada and Sweden.

The second reason relates to the small size of the countries' domestic economies within the context of their home regions. This means that MNCs originating from these two countries tend to be highly internationalized and are likely to be sensitive to the pressures of the global environment to restructure. Hence, Canadian and Swedish MNCs are highly suitable as subjects for the study of HR restructuring activity in the context of internationalization. Furthermore, Canada and Sweden also provide a useful contrast in terms of their national business systems, the nature of which has the potential to shape HR restructuring within home-country firms. Canada is classified as a liberal market economy and Anglo-Saxon in orientation whilst Sweden is a coordinated market economy and non Anglo-Saxon in nature.

As well as cross-country comparison, the research objectives drive a cross-sectoral investigation into the issues. The research design therefore allows us to explore restructuring in MNCs operating in primary, secondary and tertiary industries. The rationale behind the selection of firms operating in the forestry, metalworking and

banking industries is twofold. Firstly, these are all industries in which the international business environment is currently exerting strong pressure to restructure their business strategies. Secondly, they are all industries in which Canadian and Swedish firms are strongly featured.

## **RESULTS**

### **Developments in HR policy**

The study finds that all six MNCs are developing policies that focus upon the individual performance evaluation of employees and linking remuneration to individual performance. The rationale for this is similar across all six firms, including a need for management to monitor employee skill levels and to motivate improvements in employee performance via remuneration. In accordance with Almond et al. (2003) there is also a keen awareness of the need to satisfy short-term shareholder returns, a factor that motivates the development of a more robust and individualised approach to performance evaluation and remuneration policies.

It is clear therefore that all six firms are pursuing a policy approach that is commonly found within Anglo-Saxon companies, such similarity being in accordance with Smith and Meiksins' dominance thesis. However, closer examination of the data reveals that any convergence on Anglo-Saxon style performance management policy across the six firms is at this stage occurring in intention only, with the pace and nature of policy developments continuing to differ significantly between firms, influenced by both country and sectoral factors.

Examining performance evaluation policy, the Canadian companies have more highly developed policies than their Swedish counterparts (with the exception of the corporate banking arm of the Swedish bank, the rationale for which is touched on below). All three Canadian firms, irrespective of sector or union status, have recently introduced corporate policies that advocate the performance appraisal of all employees. Furthermore, the Canadian forestry and banking firms have integrated their performance management policies with business strategy through formal frameworks. In the Swedish metalworking and forestry firms and the Swedish retail banking business, individual performance evaluation policy is in its infancy and has to date been devised and managed in a fragmented manner across sites, with no company-wide integration. Hence, there is a strong country of origin influence shaping the nature of performance evaluation policy, with the Canadian firms, in accordance with their Anglo-Saxon roots, being further advanced in the adoption of a robust performance appraisal policy than the Swedish firms.

In terms of developments in remuneration policy and, specifically, IPRP, the picture differs from that of performance evaluation. In the forestry and metalworking companies and the Swedish retail banking business, the development of a company-wide IPRP policy remains embryonic. In contrast, policy within the Canadian bank and also the Swedish corporate banking business is highly developed (as is the performance evaluation policy within this business area, which is inextricably linked to the remuneration policy). Such evidence of similarity along sectoral lines (albeit with a distinction between retail and corporate banking in the Swedish firm) fits with the findings of Long and Shields (2005). First, that IPRP policy is likely to be more prevalent in the financial services industry. Second, that advanced IPRP policy is most likely to be found in companies that have little or no unionisation, a feature that is true of both the Canadian bank (non union) and the Swedish corporate banking business (relatively low unionisation). In contrast, in the remaining case study firms, evidence shows that home country unions have historically been opposed to the

introduction of IPRP and corporate HR has until very recently been reticent in bringing it to the table as an issue for discussion.

### **Process of standardization in HR**

A very recent development across all six firms has been the decision to standardize HR on a company-wide basis, a move that involves in all cases a centralization shift in the HR function. The reasons for change include the need to remove duplication across sites, the need to bring equity in HR across borders and the need to afford central HR more control. A further similarity evident across the companies is that they are developing standard processes in various areas of HR, including performance management. The nature of these processes in all cases is framework rather than centrally prescriptive, leaving scope for local adaptation at site and country levels.

However, whilst there is similarity amongst the companies, any convergence again remains in intention only, as the nature and pace of standardization differs. In terms of the standardization of individual performance evaluation, the Canadian forestry firm is very advanced, having implemented a company-wide appraisal process in 2002. Similarly, the Canadian bank has recently taken steps to standardize the appraisal process across sites and borders. In contrast, performance appraisal within the Canadian metalworking MNC is well developed but is managed at individual site level. Hence, attempts at company-wide standardization are in their early days. Developments in the Swedish firms are embryonic. Whilst the objective of all three is to standardize the appraisal process on a company-wide basis, to date, evaluation of employees remains managed in a more ad hoc manner across sites. In terms of the standardization of company-wide IPRP processes, no company has yet managed to introduce such a framework process due to the complexity of dealing with local institutional constraints in this area as anticipated by Rosenzweig and Nohria (1994).

One interesting feature from the study of HR standardization however lies in the way in which the firms are developing their framework HR processes. Here, similarity in behaviour lies between same country companies. All three Swedish firms have recently established cross-border teams of HR managers to develop the substance of the standard processes that are to be rolled out across the company, so a geocentric approach has been adopted. In contrast, the Canadian firms are taking an ethnocentric approach to standardization, with the substance of the processes being determined solely by HR management within Canada.

### **Operationalising HR policy – HR in practice**

The study shows that, with the exception of the Swedish corporate banking business, policy relating to performance evaluation is currently more advanced within the three Canadian firms. However, when we look at developments at the HR practice level, it does not necessarily follow that the Canadian firms are more advanced in the operationalisation of that policy. In fact, the case of the forestry companies demonstrates that the reverse can be true. In 2002 the Canadian firm introduced a mandatory, company-wide employee appraisal policy. However, in an industry that employs a large number of blue-collar workers the firm's policy has not been operationalised successfully within the home country due to union opposition. That is, the unions will not permit the performance evaluation process to be applied to any blue-collar unionised employee. Hence, the only employees subject to the process in Canada are white-collar workers and those who are non-unionised. In contrast, in spite of high unionisation and the absence of formal corporate policy in the Swedish firm, the company's flagship mill in Sweden has recently successfully implemented a system of performance evaluation for all employees with full union approval. Such differences support Huzzard et al's (2004) findings that Swedish unions, including

those representing blue-collar workers, have a propensity to dance with management on policy. In contrast, the findings confirm the 'boxing' nature of the management-union relationship within the Canadian firm and a clear ability for unions to constrain the successful operationalisation of policy.

In terms of IPRP, whilst policy is advanced within the two banking firms (albeit limited to the Swedish corporate banking business), in the four remaining firms and Swedish retail banking, policy has to date remained under-developed due to the historic opposition of the home country unions. However, at the practice level there are differences in how IPRP has been evolving recently within the home country operations of these firms, shaped by both country and sectoral factors.

In the Swedish metalworking and forestry firms there are similarities in the way in which IPRP is being introduced. In both firms, whilst the extent and degree of IPRP varies across sites, it is becoming increasingly common for white- and blue-collar workers to be paid according to performance. In contrast, the Canadian forestry and metalworking firms have made little progress with IPRP in practice, due to home country union opposition. Hence, there is evidence here at the practice level of a country of origin difference which results in the counter-intuitive outcome that Anglo-Saxon style contingent pay is more prevalent within the non Anglo-Saxon companies than within their Anglo-Saxon counterparts. Again, the findings support Huzzard et al (2004), with Swedish unions becoming more open to the individualisation of pay as a means of supporting the business and protecting their members' jobs than those in Canada, where an arm's length and more adversarial relationship exists.

Such a counter-intuitive outcome does not always hold true, however, as demonstrated by the evolution of practice within the two banks. Comparing developments in the retail banking operations, it is evident that IPRP is more prevalent in the Anglo-Saxon than the non Anglo-Saxon firm. One explanation for this lies in the non-union status of the Canadian firm, which has undoubtedly facilitated the introduction of IPRP in its operations. Perhaps more notable is that, contrary to Long and Shields (2005), when we compare the prevalence of IPRP across the three Swedish firms, practice is more advanced in the forestry and metalworking companies than in the bank. There appear to be two explanations for this difference. Firstly, the banking sector in Sweden is less organised than in forestry and metalworking and hence Swedish banking unions are likely to be less clear on how to confidently drive an agenda and dance with management than within the other two sectors. The second explanation lies in the context of internationalization and a firm's first order strategy. That is, within the banking industry at the time of the research, employees faced a far lower threat of operational relocation or closure compared to those in the forestry and metalworking industries. The absence of such a threat therefore means that there is less motivation for the banking unions to dance with management in order to protect jobs. In sum, whilst it is evident that Swedish unions do show a propensity to dance with management as noted by Huzzard et al (2004), the degree and extent of that dancing can clearly vary according to sector.

## **DISCUSSION AND CONCLUSION**

The objectives of this paper were twofold. To explore the nature of performance management policy, process and practice restructuring in MNCs as they internationalize and to consider the extent to which there is evidence of convergence in such activity across firms originating from Canada and Sweden and operating in three different sectors.

In terms of policy restructuring, the paper has shown that all of the companies studied are developing performance management policies that are Anglo-Saxon in

nature. That is, corporate HR is aiming for a more robust and individualised approach to performance evaluation and remuneration as a means of more effectively supporting the business. The Anglo-Saxon orientation of these policy objectives within the three Swedish firms appears to be a clear sign of a dominance effect at work, exactly as described by Smith and Meiksins (1995).

Regarding the nature of process restructuring, the paper has highlighted how all six firms are embarking on a process of HR standardization (in both performance management and other areas of HR). The rationale for this change lies in the belief that, in the context of internationalization, such an approach is necessary in order to more effectively support HR policy and the business' objectives. Importantly, corporate HR desire greater control of the HR performance management process in order that an effective alignment can be made between employee performance objectives and company-wide business strategy and to facilitate the movement of talent across businesses and borders in the most effective manner. That said, the study has also highlighted the difficulties in achieving company-wide standardization, in areas such as IPRP, even when a framework approach is taken, due to local institutional factors as anticipated by Rosenzweig and Nohria (1995).

At the level of HR in practice, the study gives support to Khilji and Wang's (2006) argument that a policy intention-implementation gap can often exist in HR. The example of the Canadian forestry MNC reveals how, due to local institutional constraints, the gap relating to performance evaluation policy is large. Furthermore, the contrast with the Swedish forestry company shows how the propensity for unions to box or dance with management over the implementation of policy can be highly influential in determining the size of any intention-implementation gap and hence the extent to which HR policy is able to effectively support business performance.

Turning to the issue of convergence in policy, process and practice restructuring, the paper reveals a mix of similarities and differences across firms. This finding is significant in two respects. Firstly, it confirms that there is no overall general convergent trend occurring in MNCs in response to internationalization. Secondly, where there is evidence of convergence in activity across all six firms, it happens most commonly in terms of policy convergence (bearing in mind that the initial decision to standardize the HR process is a policy rather than process decision). But what is important to note is that such convergence occurs principally in intention only. Beyond the level of intention evidence shows that the pace and nature of performance management policy development, the process by which standardization of HR is occurring within the firms and the evolution of HR practice are all shaped and influenced by a mix of country and sector effects.

In sum, the findings of the study add support to Hay's (2000) proposition that we need to move beyond a simplistic input-output of convergence and instead 'unpack' the notion in order to give us a deeper understanding of what aspects of HR decision-making are converging across firms as they internationalize, where differences remain or are evolving, and the relative influences of the country and sector in shaping the various aspects of HR decision-making in MNCs.

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