Ekonomi och samhälle
Economics and Society

Skrifter utgivna vid Svenska handelshögskolan
Publications of the Hanken School of Economics

Nr 205

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# DEVELOPING AND INTEGRATING HRM PRACTICES IN MNC SUBSIDIARIES IN CHINA

Helsinki 2009

Developing and integrating HRM practices in MNC subsidiaries in China

Key words: HRM capabilities, integration mechanisms, networks, role of the HR department, MNC subsidiary, China

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http://www.hanken.fi

ISBN 978-952-232-053-7 (printed)
ISBN 978-952-232-054-4 (PDF)
ISSN 0424-7256

Edita Prima Ltd, Helsinki 2009

**ACKNOWLEDGEMENTS**

I am thankful to all the people with whom I have crossed paths during my Ph.D. studies, and whose advice, support, and encouragement made it possible for me to complete this thesis. First I would like to extend my gratitude to my pre-examiners Professor Carl Fey and Professor Jaap Paauwe for their insightful comments. I am also sincerely thankful to Professor Paul Gooderham for acting as my opponent.

I would like to express my sincere gratitude to Professor Ingmar Björkman. I have been very fortunate to have had a thesis supervisor who has always taken the time to comment on my many more or less structured drafts and offered an immense amount of both encouragement and support in an enthusiastic, inspiring and kind manner. A big thank you for that Inkku!

Thanks must also go to my other co-authors Professor Vesa Suutari and Professor Yuan Lu, and in particular to Adam Smale whose expertise, enthusiasm, and cheery e-mails have made it a pleasure to work together. Jukka-Pekka Heikkilä and Petri Pekkarinen deserve a special mention for their help with data collection and I also wish to extend a heartfelt thank you to Susanna Taimitarha for answering my countless questions about statistics with a seemingly neverending patience.

I am most grateful for the financing provided to me during my doctoral studies by the Ella and Georg Ehrnrooth foundation, Liikesivistysrahasto, Marcus Wallenberg foundation, and Stiftelsen Svenska handelshögskolan. A big thank you must also go to the Finnish Graduate School of International Business (FIGSIB) and the Department of Management and Organization for providing financing at crucial points in time. Furthermore, I am grateful to all the individual respondents in the MNC subsidiaries in our study for taking the time to answer our questions.

The time I spent at FEK:en at Uppsala University during my doctoral studies was important for me in many ways and for this opportunity I am highly indebted to my kind host Ulf Andersson. I would also also to thank Ulf Holm for many discussions on statistics and flying, and Christina Hallin and Katarina Buhr for making FEK:en such a fun place to work.

My biggest thanks go to my colleagues at the Department of Management and Organization and especially to the doctoral students at FLO, past and present! Believe it or not, this thesis would most certainly not have been finished if it weren't for the countless inspiring kitchen discussions on topics ranging from research to dancing shoes. I especially wish to thank Anette, Anna, Denise, Eric, Fredo, Jonna, Markus, Matte, Olli, Poppy, Riikka, Sari, Stefan, Tom, Vita, and Wille. The third floor bunch also deserves a special mention for the unique working atmosphere. Most of all I am deeply indebted to my three fountains of knowledge Hertta, Jonnu, and Sanne. Meeting you has without a doubt been the best thing about working at FLO!

My friends have regularly provided me with a much needed contrast to research issues and for this I am truly grateful. In particular Anna, Nana, Heidi, and Nina have always had some fun plans in store, and Felicity can breathe a sigh of relief that my studies are finally over!

Heartfelt thanks go to my mum, dad, and sister Hannah for always being there and helping and supporting me in everything I do. As with many other things in my life this has been crucial also for the thesis process. Finally Pelle and Stella, my family, how can I thank you for all the joy and laughter we share, you remind me every day about what is really important in life.

Helsinki, 29.6.2009
Jennie Sumelius

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# 1 INTRODUCTION

## 1.1. HRM in MNC subsidiaries

Increasing attention has been paid to International Human Resource Management (IHRM) over the past few decades (Björkman and Stahl, 2006). Research on HRM in subsidiaries of multinational companies (MNCs) has widely examined subsidiary HRM practices within the integration-responsiveness framework (Prahalad and Doz, 1987). This has implied a focus on the global standardisation and local adaptation of practices, i.e. the extent to which subsidiary HRM practices resemble MNC home country practices and/or local host country practices (Hannon, Huang, and Jaw, 1995; Rosenzweig and Nohria, 1994).

Compared to other functions HRM has been found to link more closely to the local institutional environment (Rosenzweig and Nohria, 1994), and HRM practices are strongly influenced by national cultural values and social structures (Myloni, Harzing, and Mirza, 2004). This means that HRM practices tend to require a lot of local adaptation whilst there simultaneously, in the context of MNCs, is a need for at least some consistency in practices found across foreign subsidiaries for instance in regard to issues like performance appraisal and the compensation of a global workforce. Various contingency frameworks suggesting factors that influence the standardisation and localisation of subsidiary HRM practices have been developed in previous research (e.g. Schuler, Dowling, and De Cieri, 1993; Taylor, Beechler, and Napier 1996).

In addition to examining the HRM practices in foreign subsidiaries, previous work within IHRM has studied the process of transferring practices from MNC headquarters and integrating them in the subsidiaries (Hetrick, 2002; Myloni et al., 2004). Szulanski (1996) proposed four main barriers to internal knowledge transfer, which can be considered relevant also in regard to HRM practices: the characteristics of the knowledge being transferred, the characteristics of the source and recipient, and the characteristics of the context in which the transfer takes place. HRM scholars have examined the influence of various factors relating to Szulanski's (1996) suggested barriers on the process of HRM integration, including MNC nationality (Ferner, 1997), the number of expatriates (Björkman and Lu, 2001), the establishment mode of the

subsidiary (Hetrick, 2002), and the influence of host-country institutional factors (Myloni et al., 2004). Attention has also been directed at the level of adoption of practices in the subsidiary (Kostova, 1999; Kostova and Roth, 2002).

### 1.2. Outlining the research gaps

A considerable amount of the work conducted on the standardisation and localisation of HRM practices has focused on what subsidiary HRM practices look like in terms of their degree of standardisation or localisation and the reasons for why certain practices exist in a specific subsidiary. In other words emphasis has been on the extent to which different HRM practices in the various subsidiaries of the MNC are locally adapted and/or standardised and transferred across borders but largely without consideration of how this is actually done. Several HRM scholars have argued that there is a need for more work focusing on the *'how'* in IHRM (Fey, Pavlovskaya, and Tang, 2004; Smale, 2007; Truss and Gill, 2005). Accordingly, the focus of the discussion in this thesis shifts from the questions of *what* and *why* to the question of *how* and the main focus is on the processes that shape the HRM practices found in MNC subsidiaries.

One aspect of *'how'* that merits more research attention is the process of integrating HRM policies and practices across borders (Björkman and Lu, 2001; Rosenzweig and Nohria, 1994). Another issue deserving more research interest is why the subsidiary has the practices it does, and through which processes these practices have originated. Consequently, there is a need to focus on the development of HRM practices, including the question of how subsidiary HRM capabilities are developed, since capabilities at least partly enable the development, implementation, and maintenance of appropriate (globally standardized or locally adapted) HRM practices (Morris, Snell, and Wright, 2006; Roehling et al., 2005). As Yeung, Woolcock, and Sullivan (1996) argue, whilst attention has been directed at identifying different HRM capabilities, more research is needed on the processes through which companies acquire and develop HRM capabilities. One such process is involvement in internal and external social networks. Social networks have been suggested to be important influences in this regard since they are a way of linking to new knowledge sources (Nahapiet and Ghoshal, 1998; Tregaskis, 2003).

Furthermore, there is little existing research on the role of the subsidiary HR department in relation to the development and integration of HRM practices. In addition to the above outlined research gaps there is a need for more work on the development of HRM practices over time in connection with changes in the subsidiary's institutional environment. Finally, calls have been made for more studies examining HRM practices on an individual rather than on an aggregate level (Björkman, 2006; Lu and Björkman, 1997; Myloni et al., 2004; Rosenzweig and Nohria 1994; Smale, 2007) since this enables a more detailed examination of differences across practices in regard to for instance the use of various integration mechanisms, or the influence of involvement in social networks on the development of different practices.

### 1.3. Objectives of the study

Against the background of the above discussion, the general aim of the thesis is to shed light on how and why certain HRM practices and capabilities come to exist in MNC subsidiaries. The more specific sub-questions of the thesis are formulated as follows:

i) To what extent do subsidiary HRM practices resemble parent MNC and host country practices? How has this changed over time and why?

ii) How are HRM practices integrated into MNC subsidiaries and why are certain integration mechanisms used?

iii) How does involvement in internal and external social networks influence subsidiary HRM capabilities?

iv) What factors influence the strategic role of the subsidiary HR department?

### 1.4. China as a context

The host-country context of this study is China. The country's significant socio-economic transition over the past two decades as well as its increasingly important role in the world business context makes China an interesting setting for the study. From an HRM point of view China is especially interesting since the on-going changes in the

environment have influenced HRM in local companies as well as MNCs operating in the country as the Western concept of HRM has become more well-established.

### 1.5. Structure of the thesis

The thesis consists of five chapters. The current introductory chapter provides some background to the topic and presents the aims of the thesis. In Chapter 2 I review the literature on HRM in MNC subsidiaries with a focus on subsidiary HRM practices and capabilities, HRM integration mechanisms, and the role of the subsidiary HR department. Furthermore, I discuss social networks, social capital, and new institutional theory which together form the organisational theoretical frame of the study. In Chapter 3 the method of the study is outlined and the data collection process is described, whilst Chapter 4 consists of summaries of each of the six individual articles in the thesis. In the concluding chapter, I present the findings of the study and its implications as well as the ideas for future research that spring from this thesis.

Paper 1 addresses sub-question i) and examines how the resemblance of subsidiary HRM practices to parent MNC and/or host country practices has changed over a ten year long time period. Papers 2 and 3 relate to sub-question ii) and explore integration mechanisms and aims, as well as antecedents for the use of different integration mechanisms. Papers 4 and 5 which address sub-question iii) focus on the influence of managerial involvement in internal and external social networks on the development of subsidiary HRM capabilities. Paper 6 focuses on sub-question iv) and explores factors influencing the strategic role of the HR department and how it has changed over time.

# 2 THEORETICAL BACKGROUND

In this chapter I present the theoretical points of departure for this thesis. I start by defining the concepts HRM capabilities and HRM practices. I then go on to discuss the organisational theories used in this study. I conclude by discussing past research more specifically in relation to each of the four research questions posed in chapter 1.3., and expand on how this study intends to contribute to existing knowledge in these areas.

## 2.1. HRM capabilities and HRM practices

Previous research has defined the concept of HRM capabilities, sometimes also termed HRM competencies, in various ways. For instance Park, Gardner, and Wright (2004:262) define HRM capabilities as *'routines embedded in the tacit and implicit knowledge of members of an organisation functioning to acquire, develop, nurture, deploy, and redeploy human resources in a dynamic, competitive environment'*. Kamoche (1996:219) on his part suggests that the HRM capabilities of a company consist of *'skill-based and behavioural capabilities, and the ability to generate the stock of knowledge and collective learning that enable it to provide core products/services principally through people.'* The definition of Park et al. (2004) focuses primarily on what is meant by a capability but says less about the HRM content aspect, and whilst Kamoche expands a bit more on the content aspect he defines it on a fairly general company level without specifying whose capabilities are in question.

In contrast, Ulrich, Brockbank, Yeung, and Lake (1995) conceptualise HRM capabilities at the level of individual HR professionals. They propose that the capabilities consist of three different knowledge areas: knowledge of the business, functional expertise, and change management. Similarly, Huselid, Jackson, and Schuler (1997) separate between two kinds of HRM capabilities that are important for HR staff members: professional and business related HRM capabilities. They argue that the first group relates to the delivery of traditional HRM practices and the second to the link between HRM and strategy.

Others discuss the concept of capabilities related to HRM on a more general level. For instance Morris et al. (2006) discuss two HRM-related capabilities that they term

integrative and creative capabilities. Drawing on the knowledge-based view they argue that these two capabilities are needed in order for the MNC to be able to both develop new HRM practices and integrate these practices across its various subsidiaries (Morris et al., 2006). In contrast to how the concept of HRM capabilities is conceptualised by for instance Ulrich et al. (1995) and Huselid et al. (1997), the integrative and creative capabilities suggested by Morris et al. (2006) are of an enabling nature rather than being directly linked to the content of the actual HRM practices.

Against the above discussion I conceptualise a capability in general as an individual's ability to use his/her knowledge and skills for a designated purpose. Since previous research has used the terms capabilities and competencies interchangeably (Boxall, 1998) I treat them as synonyms. However, I choose to use the term capabilities rather than competencies since I perceive that it relates to the actual, inherent ability of an individual whereas the term competencies encompasses an underlying assumption of ability in comparison with others and ability as something that is demonstrated.

When defining capabilities more specifically in regard to HRM I draw strongly on the conceptualizations of Ulrich et al. (1995) and Huselid et al. (1997) in order to capture the content aspect of HRM. Whilst neither presents an explicit definition of HRM capabilities they make a clear distinction between two different types of capabilities. The first type of HRM capability, termed functional expertise by Ulrich et al. (1995) and professional HRM capabilities by Huselid et al. (1997), implies being able to deliver traditional HRM practices to the MNC staff members. In the context of this study I choose to call it technical HRM capability and define it more specifically in regard to the HRM practices I/we focus on in the individual papers as *'The ability to develop, implement and maintain appropriate practices related to traditional HRM practices in the subsidiary such as compensation, training, performance appraisal and recruitment'*.

The second type of HRM capability is termed knowledge of the business by Ulrich et al. (1995), and business related HRM capabilities by Huselid et al. (1997). This capability implies that HR professionals understand the business strategies of the company and what needs it has, and can adjust the company's HRM activities in accordance with this. Based on this I choose to term this type of capability strategic HRM capability and

define it as *'The ability to align the subsidiary's HRM practices with the business strategies of the firm'*. In addition to distinguishing between technically and strategically oriented HRM capabilities, Ulrich et al. (1995) propose a third category: managing change. I argue that managing change is an inherent part of both technical and strategic HRM capabilities and consequently do not include it as a separate type of HRM capability.

Moving on to the concept of HRM practices, it seems relevant to briefly discuss what I mean by HRM practices in the context of this thesis as compared to HRM philosophies, policies, and tools. According to Schuler (1992) an HRM philosophy is the overarching view of how people are valued and treated in the organisation. HRM policies are influenced by an organisation's HRM philosophy and act as guidelines for how to handle different people-related issues. Policies in turn influence the development of specific HRM practices related to for instance recruitment or appraisal (Schuler, 1992), which can then be implemented with the help of various HRM tools like different documents, templates or computer systems.

Szulanski (1996) refers to an organisational practice as the routine use of organizational knowledge. Similarly but in a bit more detail Kostova (1999:309) defines organizational practices as *'particular ways of conducting organizational functions that have evolved over time under the influence of an organization's history, people, interests, and actions and that have become institutionalized in the organization.'* In this thesis I apply the definitions by Szulanski (1996) and Kostova (1999) to HRM practices. Further, I posit that HRM practices can at least partly be viewed as an outcome of HRM capabilities.

Several studies within IHRM have highlighted the existence of differences across individual HRM practices, emphasising the need for more research examining HRM practices separately rather than on an aggregate level (Lu and Björkman, 1997). For instance Fey et al. (2004) compared HRM practices in Swedish MNC subsidiaries in China, Russia, and Finland and found differences in the degree of standardisation/localisation of individual HRM practices across different countries. Myloni et al. (2004) compared HRM in Greek firms and MNC subsidiaries located in Greece and found support for their argument that individual subsidiary HRM practices are localised and/or standardised to different degrees. The current study focuses on four

HRM practices, namely recruitment and selection, training and development, financial compensation, and performance appraisal. A variety of HRM practices have been used in past studies but Boselie et al. (2005) found, in their overview of 104 empirical studies on the HRM-performance link, that these four practices were the ones most commonly included in empirical HRM work. Thus, one reason for focusing on the same four practices in this thesis was that it enables comparison with past studies. In addition, this choice enabled the longitudinal comparisons in papers 1 and 6 in this thesis. Finally, in line with Paauwe (2009) I consider that recruitment and selection, training and development, financial compensation, and performance appraisal can be considered as the core IHRM practices.

Scholars have further argued that HRM practices are likely to differ across employees, and warned against assuming invariability of practices across large groups of employees in an organisation (Lepak and Snell, 1999; Wright and Boswell, 2001). This kind of difference is also likely to be noticeable at the level of the MNC subsidiary where HRM practices regarding expatriate managers will be different than practices regarding local managers and professionals, which yet again are likely to differ from HRM practices concerning shop floor employees. In the current study focus is on HRM practices at the level of subsidiary managers and professionals.

Another issue which has received increasing research attention is intended versus actual HRM practices (Huselid and Becker, 2000; Wright and Nishii, 2007). It refers to the question of how practices that have been determined to be appropriate by for instance corporate HR at headquarters are actually implemented at the subsidiary level. Furthermore, whilst a certain practice can be implemented it can be done in a different way than what was originally intended, and to different extents by employees at different levels in the organisation (Wright and Nishii, 2007), for example HR managers and shop floor employees. This also has some implications for data collection, for instance HR managers may know what practices were intended to be implemented in the subsidiary, but are not necessarily aware of how they have been implemented and thus what the actual practices that exist in the subsidiary are. There may also be a difference regarding what practices respondents mean, the intended practices or those actually implemented in a certain subsidiary, depending on if data is gathered at

headquarters or subsidiary level. The issue of measuring intended versus actual HRM practices will be discussed further in connection with the methods used in this study in chapter/section 3.2.

## 2.2. The organisational perspectives applied in the study

IHRM scholars have applied a multitude of perspectives from organisational theory for studying HRM in MNCs, classifying them on dimensions such as strategic-non-strategic, micro-macro, and exogenous-endogenous (De Cieri and Dowling, 1998). In a review of organisational perspectives commonly used in SHRM research Wright and McMahan (1992) focused on six macro-level theories/perspectives and classified them along the dimension strategic (resource-based view, behavioural perspective, cybernetic systems, transaction costs/agency theory) versus non-strategic (new institutional theory and resource dependence theory). With the exception of the systems perspective, De Cieri and Dowling (1998) focused on the same perspectives in their review paper on IHRM (or as they phrase it: SHRM in MNCs). They further included an additional perspective; strategic choice, which falls in the realm of what Ferris et al. (1999) term as political perspectives on HRM.

Out of the macro perspectives mentioned above the resource-based view, agency theory, resource dependence theory, and institutional theory have arguably been most commonly applied in empirical studies within the field of IHRM. The resource based view (Barney, 1991) has been used to highlight the strategic role of people for creating a sustainable competitive advantage for the MNC (Wright, Dunford, and Snell, 2001). Some have suggested that the potential for HRM to provide a sustainable competitive advantage for the MNC lies primarily in the people, i.e. in having a highly skilled and motivated workforce (Wright, McMahan, and McWilliams, 1994), whereas others have emphasized the role of the HR function, and the unique, interdependent systems of HRM practices (Fey and Björkman, 2001).

Within IHRM research agency theory has primarily been applied for examining compensation issues. For instance Roth and O'Donnell (1996) found that agency problems such as asymmetry of information influenced the design of compensation strategies in MNC subsidiaries. Similarly, Björkman and Furu (2000) studied

compensation strategies for top management and found support for their argument that the greater the agency problem the MNC has, the more likely it is to use variable pay as a mechanism for reducing possible interest differences between the subsidiary top manager and the parent organisation.

The resource dependence perspective (Pfeffer and Salancik, 1978) focuses on power relationships within and across organisations. Within IHRM it has primarily been applied to examine how a subsidiary's dependence on local resources and/or parent MNC resources influences the extent of standardisation or localisation of its HRM practices. For example, both Hannon et al. (1995) and Björkman and Lu (2001) found that dependence on parent MNC resources does indeed result in subsidiary HRM being more globally integrated and correspondingly that dependence on local resources implies more localised HRM.

In order to capture the full complexity of HRM in MNC subsidiaries, researchers have recently argued for the increasing use of multiple perspectives (Myloni et al., 2004). In this thesis I draw extensively on new institutional theory as well as the more micro-level social network/social capital theory. Institutional theory is the main theoretical perspective used in this study since it helps to shed light on the development and integration of subsidiary HRM practices as a result of influence from other organisations and other parts of the own organisation. It is applied in five of the individual thesis papers, albeit to varying degrees. Whilst institutional theory is conducive for understanding why organisations are influenced by each other, and how this happens on a macro level in terms of isomorphic pressures, social network/social capital theory helps to capture the micro process aspect of *how* this actually happens. Thus, in papers 4 and 5 of my thesis I blend social network/social capital theory with institutional theory in order to examine the influence of involvement in social networks on the development of HRM capabilities. Since these two organisational perspectives constitute the main theoretical basis of this thesis they will be presented and discussed in greater detail in sections 2.2.1 and 2.2.2.

### *2.2.1. New institutional theory and HRM*

New institutional theory assumes that the actions of organisations are not only a result of rational decision-making processes with the goal of maximizing effectiveness, but that they are also influenced by the social, institutional context in which the organisation exists (Westney, 1993). This implies that organisations adopt certain structures and ways of operating in order to obtain legitimacy in their environment (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). MNC subsidiaries are considered to exist under conditions of institutional duality which means that they experience pressure to obtain both internal legitimacy from the MNC, and external legitimacy from their external local networks (Kostova and Roth, 2002; Rosenzweig and Singh, 1991; Westney, 1993). Consequently, both the external institutional context and the internal relational context of the organisation will shape the HRM practices that exist in a subsidiary.

DiMaggio and Powell (1983) suggest that organizations adopt different practices through three different processes of isomorphism: coercive, mimetic and normative. Scott (2001) has later termed these regulatory (coercive), cultural-cognitive (mimetic), and normative. In the context of MNC subsidiaries an example of external coercive isomorphism is when laws and regulations in the subsidiary's host country force the subsidiary to adopt certain HRM practices. An example of internal coercive isomorphism could for instance be when the subsidiary is forced to adopt a certain practice by headquarters due to headquarters' authority or on account of its resource dependence on headquarters.

Mimetic isomorphism leads organisations to model themselves on other organisations as a result of uncertainty in their environment. This means that MNC subsidiaries are likely to copy the practices of other similar organisations in their external environment (mostly MNCs) that appear to be successful (Coleman, 1988; Schoonhoven, Eisenhardt, and Lyman, 1990). The diffusion of 'best practice' within the MNC is an example of a process of internal mimetic isomorphism in that subsidiaries copy a practice that is viewed as useful within the organisation. Finally, normative isomorphism implies that professionals in the same field will develop similar norms and methods of work for

example due to receiving similar formal education or involvement in the same professional networks (Tregaskis, Heraty, and Morley, 2001).

Institutional theory has been used extensively in IHRM research, primarily to shed light on the HRM practices that exist in MNC subsidiaries (Hannon et al., 1995; Rosenzweig and Nohria, 1994; Gooderham, Nordhaug, and Ringdal, 1999; Myloni et al, 2004; Björkman, Fey, and Park, 2007). Paauwe and Boselie (2007) argue that it still has potential to increase our understanding of various aspects of subsidiary HRM practices. In paper 1 we draw heavily on institutional theory to examine changes in MNC subsidiary HRM practices during a ten year time period as a result of the ongoing changes in the coercive, cognitive and normative institutional environment in China, and the increasing efforts of MNCs to globally standardise company internal practices. In papers 4 and 5 I combine institutional theory with social network/social capital theory to examine the processes through which HRM capabilities develop in MNC subsidiaries, thus answering calls for augmenting our understanding of the processes of mimetic isomorphism (Westney, 1993; Björkman, 2006). In particular, it serves to highlight the role of MNCs as influential drivers of mimetic and normative isomorphism in the Chinese context.

Institutional theory also stands as a base for paper 6 which examines the strategic role of the HR department in MNC subsidiaries in China and how it has changed over time. To a lesser extent an institutional perspective is applied also in paper 2 which examines the use of different HRM integration mechanisms depending on three suggested integration aims, control, transfer and adaptation.

#### *2.2.2. Social network/ social capital theory and HRM*

The knowledge and skills that reside within individual employees, the human capital of the organization, are often developed through interaction with others. Involvement in social networks has been argued to be a valuable way of accessing new knowledge and information and thus, developing capabilities (Nahapiet and Ghoshal, 1998; Subramaniam and Youndt, 2005; Tsai and Ghoshal, 1998; Tregaskis, 2003). In regard to innovations, Scott (1990) suggests that involvement in social networks can also provide

new ideas for implementation and support for adoption, and this argument can also be applied to HRM practices.

The benefit of being involved in social networks has been called social capital (Kostova and Roth, 2003). Nahapiet and Ghoshal (1998) posit that social capital consists of three dimensions: structural, relational, and cognitive and define it as *'the sum of the actual and potential resources within, available through, and derived from the network of relationships possessed by an individual or social unit'* (Nahapiet and Ghoshal, 1998: 243). The structural dimension concerns the pattern of network linkages, which can be conceptualized in terms of connectivity, density and hierarchy in other words, who you know, how often you meet and the degree of formality of the network. The relational dimension concerns the nature and quality of the relationship, and has been described in terms of trust, norms, obligations and expectations, and identity. Finally, the cognitive dimension of social capital refers to having a shared language and frame of reference, i.e. a common way of doing things. (Nahapiet and Ghoshal, 1998) Since the focus in this thesis is primarily on the structural dimension, social capital within the frame of this thesis is defined as *'the web of relationships among employees and groups (both inside and outside of the organisation) that provides information, helps solve problems, expands customer bases, and does other things that add value and enhance strategic capability'* (Lengnick-Hall and Lengnick-Hall, 2003: 54).

Social capital has been conceptualised as being either a private good, i.e. something benefiting the individual (Burt, 1992), or a public good which implies that it, in addition to those individuals who created it, also is available to and potentially beneficial to other individuals (Coleman, 1988). In line with Kostova and Roth (2003) I posit that relationships at the level of the individual constitute the basis of social capital. This private social capital can then be diffused to others and thus transformed from private to public social capital.

Lengnick-Hall and Lengnick-Hall (2006) argue that social networks enable a better flow of knowledge within the MNC, and facilitate the learning that needs to take place in order for HRM practices to be successfully integrated in subsidiaries. In papers 4 and 5 of my thesis I take a social network/social capital perspective to examine how the network involvement of subsidiary managers and professionals in general (paper 4), and

HR and general managers' in particular (paper 5), influences the development of their individual HRM capabilities and subsequently subsidiary HRM capabilities. Kostova and Roth (2003) argue that certain boundary-spanning individuals play a key role in the development of social capital in the subsidiary. In the context of paper 4 the key boundary spanning individuals are subsidiary managers and professionals, and in paper 5 more specifically the general managers and the HR managers that are in direct contact with peers in different internal and external networks.

In both papers the focus is on both internal and external networks since, as Adler and Kwon (2002) argue, this best reflects the constant interplay between internal and external that is the reality for most organisations. In paper 4 we focus primarily on the structural dimension of social capital and examine how technical and strategic HRM capabilities are influenced by the subsidiary managers' and professionals' involvement in external networks with local companies and other MNCs, as well as internal networks with MNC headquarters. The assumption is that the managers' involvement in different internal and external networks in which HR issues are discussed develops their HRM capabilities, which in turn influences the development of HR capabilities in the HR department. In paper 5 I conduct an in-depth analysis of the networks in which subsidiary HR and general managers in China are involved where they discuss HRM issues. Although the primary focus of paper 5 is on the structural dimension of social capital it incorporates the relational and cognitive dimensions to a greater extent than paper 4.

### 2.3. Previous research and intended contributions of the current study

In this section I discuss past research and elaborate on how this study goes beyond existing knowledge in regard to the research questions posed in chapter 1.3. First, related to research question 1 I discuss HRM practices in MNC subsidiaries in general, and also more specifically in the context of China. I then move on to discuss the integration of HRM practices in MNC subsidiaries, which relates to the second research question. I conclude with a section about the role of the subsidiary HR department, which connects to the third and fourth research question regarding the development of subsidiary HRM capabilities and the strategic role of the HR department.

### *2.3.1. HRM practices in MNC subsidiaries*

Using Prahalad and Doz's (1987) integration-responsiveness framework as a starting point, HRM scholars have studied the degree of standardisation and/or localisation of subsidiary HRM practices. One of the first studies examining the extent to which subsidiary HRM practices resemble MNC home country practices and/or local company practices was carried out by Rosenzweig and Nohria's (1994) who analysed MNC subsidiaries in the U.S. They found that HRM practices in general tended to resemble local practices more closely rather than MNC practices. Since then, an increasing amount of similar studies have been conducted in different host-country contexts (e.g. Beechler and Yang, 1994; Fey et al., 2004; Lu and Björkman, 1997; Bae, Chen, and Lawler, 1998; Myloni et al, 2004; Tayeb, 1998; Tregaskis et al., 2001).

Factors commonly argued to influence the HRM practices that come to exist in a certain subsidiary include the influence of the parent MNC's country of origin (Ferner, 1997; Ngo, Turban, Lau, and Lui, 1998), cultural and institutional factors in the subsidiary's host-country environment (e.g. Myloni et al., 2004; Rosenzweig and Nohria, 1994), MNC internal factors such as the role of the subsidiary in the MNC (Tayeb, 1998) the subsidiary's dependence on resources from the parent MNC and the local environment (Hannon et al., 1995), and the number of expatriates in the subsidiary (Björkman and Lu, 2001). Mode of establishment has also been found to affect the HRM practices in MNC subsidiaries. Subsidiaries established as greenfield operations generally have HRM practices that are more standardised, whereas HRM practices in subsidiaries established by taking over operations of an existing local company tend to be more localised (Björkman and Lu, 2001).

HRM practices have also received a fair amount of research attention within the scope of MNC operations in China. Studies have focused on the HRM practices found in Sino-Western joint ventures, and later in wholly-owned Western MNC subsidiaries (e.g. Björkman and Lu, 1999 and 2001; Braun and Warner, 2002; Chen and Wilson, 2003; Ding, Goodall, and Warner, 2000; Farley, Hoenig, and Yang, 2004; Gamble, 2003; Goodall and Warner, 1997; Lu and Björkman, 1997). Early research on the HRM practices of Western companies indicated that practices tended to be mainly localised (Child, 1991). This is perhaps not surprising considering the fact that Western

companies were commonly joint ventures consisting of a Western and a Chinese partner, and the concept of Western HRM was relatively unknown in the Chinese context at that time. Thus, the influence of practices pertaining to the 'iron rice bowl' approach, such as lifelong employment, egalitarian pay systems, and no layoff/firing policies (Goodall and Warner, 1997), remained strong. However, with time scholars have found indications that this has changed and that subsidiary practices increasingly resemble parent MNC practices, and furthermore that there is an increasing hybridisation of subsidiary HRM practices (Björkman and Lu, 1999 and 2001; Chen and Wilson, 2003). Björkman and Lu (1999) note that in addition to a seemingly increased emphasis on HRM issues on behalf of the MNCs themselves, this shift could be the result of an increased influence for MNCs in controlling their HRM issues due to increased ownership in joint ventures, and various enterprise reforms taking place in China. The country's significant socio-economic transition has also led to Western HRM ideas gaining more influence.

Despite of the large research interest in subsidiary HRM practices, little attention has been focused on examining how subsidiary HRM practices change over time in terms of their degree of localisation and standardisation as a result of changes taking place in the institutional environment of the subsidiary. Taking an institutional perspective we examine this issue is in paper 1 and hypothesize that HRM practices in MNC subsidiaries in China between 1996 and 2006 have become more similar to both parent country practices and the practices of local Chinese companies. We argue that the increasing resemblance with parent MNC practices is due to an increasing push for global standardisation on behalf of the MNC in order to increase the effectiveness of integrating global operations. We posit that the increasing resemblance with local company practices is primarily due to the significant coercive, mimetic and normative institutional changes going on in the Chinese environment.

### *2.3.2. HRM integration mechanisms*

The extent to which subsidiary HRM practices become localised and/or globally standardised has been argued to be contingent on different factors related to the subsidiary's local host-country environment, and the parent MNC and its home country

environment. In general the latter means that at least some aspects of subsidiary HRM have originated in MNC headquarters and subsequently been integrated in the subsidiary. Exploring *how* certain HRM practices come to exist in a specific subsidiary also entails examining the mechanisms through which HRM practices are integrated in MNC subsidiaries.

The concept of integration requires some clarification since it has previously been used with meanings closely related to control, control and coordination, and transfer. In this thesis global integration is conceptualised in accordance with Cray (1984) and Kim, Park, and Prescott (2003) who view it as encompassing aspects of both control and coordination. In the headquarters-subsidiary relationship, control relates to the question of how MNC headquarters can regulate subsidiary activities by exercising power and authority. Coordination on the other hand refers to the development of linkages between different MNC subsidiaries. (Cray, 1984) The control and coordination aspects make integration a wider concept than transfer which refers primarily to the diffusion of a practice from MNC headquarters to the subsidiary.

Whilst the issue of integration in MNCs in general has been a central point of interest in much past research, little attention has been directed at clarifying *how* HRM knowledge and practices are in fact integrated in foreign subsidiaries of MNCs. More research is warranted on the actual processes through which this happens, i.e. on the mechanisms used to integrate HRM practices. Papers 2 and 3 in my thesis focus on integration mechanisms. In paper 2 we explore differences in mechanism usage across different HRM practices and argue that the use of different integrations mechanisms varies depending on the relative importance of three suggested integration aims: control, transfer and adaptation. The focus of paper 3 is on the underlying factors that influence the choice to use certain mechanisms to transfer certain HRM practices. The aim is to shed light on the question of why different integration mechanisms are used to varying degrees to integrate HRM in MNC subsidiaries, and to identify factors that explain this difference.

Integration mechanisms have been classified in a variety of ways. For instance Baliga and Jaeger (1984) proposed two separate forms of control; bureaucratic and cultural, and also emphasised the role of centralisation but argued it to be a separate although

control-related issue. Ghoshal and Nohria (1989) on their part included centralization as a mechanism in its own right in addition to formalisation and normative integration, and argued that these three mechanisms are used in different combinations and to varying extents in MNC subsidiaries depending on their environmental contingencies. In their review paper, Martinez and Jarillo (1989) on the other hand separated between formal integration mechanisms (departmentalisation, centralisation, formalisation, planning, and output and behaviour control) and informal integration mechanisms (lateral relations, informal communication, and socialisation) and suggested that MNCs were increasingly using more informal mechanisms than before. For a recent, more extensive overview of integration mechanisms see Smale (2007).

The classification in this thesis follows that by Kim et al. (2003) who distinguish between four different integration mechanisms: people-based, formalisation-based, information-based, and centralisation-based. People-based mechanisms include personal contact in for instance meetings or committees. Formalisation-based mechanisms consist of standardised rules, policies and manuals and are suitable in cases where information and knowledge is easy to codify. Information-based mechanisms refer to the use of information systems such as e-mail, internet, ERP systems etc. These mechanisms are considered useful for instance when a large amount of easily codified information needs to be shared quickly. Finally, centralisation-based mechanisms refer to the extent to which decision-making authority is centred at MNC headquarters. (Kim et al., 2003)

The reason for choosing the classification of Kim et al. (2003) is that it is well grounded in the control and coordination literature and the four suggested mechanisms can, as the authors themselves argue, be considered comprehensive and conceptually independent. Even so this classification also has some limitations, for example some vagueness exists in the description of the people-based mechanisms. Nonetheless, it can be considered to provide one of the most detailed classifications of integration mechanisms to date, and also provides validated measures of the suggested mechanisms.

### *2.3.3. The role and capabilities of the subsidiary HR department*

There is little research on the role of HR departments in MNCs in relation to the development and integration of HRM capabilities and practices (Stiles and Trevor, 2006). Whilst some research has been done on the role of the corporate HR department (Novicevic and Harvey, 2001; Scullion and Starkey, 2000), very little attention has been paid to the subsidiary HR department in this regard (Björkman et al., 2007). The subsidiary HR department can help the MNC balance its activities between local and global needs (Truss et al., 2002), and Stiles and Trevor (2006) argue that we need to increase our understanding about how institutional pressures in different host-country environments influence the roles played by HR departments.

The role of the HR department has commonly been conceptualised by classifying the roles of the HR professionals working in the HR department (Monks, 1993; Tyson and Fell, 1986; Storey, 1992; Ulrich, 1997; Ulrich and Brockbank, 2005). The classification of these roles has been done along different dimensions, for instance intervention versus non-intervention, and strategic versus tactical (Storey, 1992), and strategic versus operational focus, and processes versus people (Ulrich, 1997). Although classifications like these provide an idea about the roles HR professionals play they are nonetheless lacking in complexity and do not capture the difficulty of separating between different roles since they often overlap, and the fact that different roles can conflict with each other (Caldwell, 2003). Nevertheless, there seems to be agreement regarding that the HR department has two main roles, an administrative one and a strategic one.

Increasing emphasis has been placed on the importance of the HR department playing a more strategic role. This implies that the HR department is involved in the MNC's strategy planning process so that it can develop HRM practices that support the strategy, and also make sure that the MNC has the capabilities to implement the suggested strategy. (Wright, McMahan, McCormick, and Sherman, 1998) In line with Truss et al. (2002:40) the strategic role of the subsidiary HR department is in this thesis conceptualised as *"its ability to configure the organisation's human resources over time, to create an environment where change and learning are embraced and diffused throughout the organisation, to adopt a future focus and to develop links with the overall strategic direction of the organization."* However, Ulrich (1997) emphasizes

that the HR department needs to manage both its strategic and its administrative/technical one, and Beer (1997) argues that in order to do this it needs HR people with different skills and identities. This implies that it is crucial for the HR department to focus on developing both the technical and strategic HRM capabilities of the HR department staff members.

Previous research has suggested that social networks are likely to have a positive influence on the development of capabilities since involvement in different networks exposes people to new knowledge and ideas (Subramaniam and Youndt, 2005; Truss and Gill, 2005). Papers 4, 5, and 6 in this thesis focus on the role and capabilities of the HR department. Papers 4 and 5 examine how subsidiary HRM capabilities are influenced by managers' involvement in internal and external social networks, whilst paper 6 explores factors influencing the role of the subsidiary HR department, a topic which up to date has received surprisingly little research attention. The studies contribute to existing knowledge in the field in two major ways. Firstly, papers 4 and 5 help to increase our understanding of the processes through which subsidiary HRM capabilities develop, which is important since the technical and strategic HRM capabilities provide the basis for the HR department managing both a technical and strategic role. Further, including both internal and external networks in the same study helps to create a more comprehensive picture of this process since, as Chen and Wilson (2003:406) argue, *"a focus solely on national context and culture neglects the impact of organizations and their management in the formation of HR policy and practice"*. Secondly, paper 6 contributes to our knowledge about the role of the subsidiary HR department by examining underlying factors affecting the strategic role of the HR department and how it has changed over time.

# 3 METHOD

The empirical base of my thesis consists primarily of data collected within the frame of the research project '*Human Resource Management in Chinese subsidiaries of European Corporations: International Transfers of HRM and their Outcomes'*. The project was a co-operation between Hanken and Vaasa University and the project members consisted of one professor and one doctoral student from each university. In addition, three research assistants were involved in the data collection process. Combining our resources in this way enabled us to collect a larger set of data than what would otherwise have been possible and also provided a good opportunity for us to combine our ideas in co-authored papers.

Within the frame of the project we gathered quantitative questionnaire data, and I also gathered qualitative data for paper 5. Thus, five of my thesis papers build on quantitative data, and one paper builds on qualitative data. Two of the papers build on dual data sets. This means that in addition to the data gathered within the above mentioned research project, paper 1 includes quantitative questionnaire data from 1996 and paper 6 includes data from 1999.

Two central concepts when evaluating the quality of empirical research are validity and reliability. Validity concerns the extent to which the measures used actually capture what they are intended to, whilst reliability concerns the stability and consistency of the measure, meaning the extent to which the research is repeatable (Bryman and Bell, 2003; Ghauri and Gronhaug, 2005). More specifically four tests are commonly suggested for judging the quality of research designs, namely construct validity, internal validity, external validity, and reliability (Yin, 2003). These are each discussed separately and in greater detail below in connection with the data collection planning process and questionnaire design.

## 3.1. The sample

When determining our sample criteria we chose to focus only on MNC subsidiaries and not to include representative offices in our sample. We first decided to target only Nordic MNC subsidiaries, but soon expanded to include also European MNCs due to

reasons associated with access and time. In order to increase external validity, which concerns the extent to which the findings of a study can be generalized beyond the research context of that specific study (Bryman and Bell, 2003), we made an effort to ensure sufficient variation in observations in order to minimize the influence of for example a certain industry or the size of the company. For practical and cost related reasons we focused primarily on subsidiaries located in the larger Beijing and Shanghai areas. More specifically, out of the interviewed companies 47 were located in or nearby Shanghai, 32 in the Beijing area, 6 in Guangzhou, and 2 in Nanjing.

74.6% of the companies in our sample were Nordic. This is at least partly due to the fact that we started out by targeting Nordic companies and only later expanded to including other European companies in our sample. Another possible reason could be that general managers (who were often the first to be contacted) in subsidiaries of Nordic MNCs may be inclined to respond more positively to an interview request coming from a Nordic research group than what may be the case regarding their peers in subsidiaries of other European nationalities. More characteristics of the sample subsidiaries are illustrated in Table 1.

**Table 1 Characteristics of the sample subsidiaries**

| N = 87 | Category | % |
|---|---|---|
| Subsidiary size (no. employees) | <100 | 36.8 |
| | 100<500 | 39.1 |
| | 500<1000 | 4.6 |
| | >1000 | 19.5 |
| Number of expatriates | 0 | 4.6 |
| | 1-4 | 50.6 |
| | 5-10 | 23.0 |
| | >11 | 21.8 |
| Mode of establishment | Continuing ongoing operations | 19.5 |
| | *Partly* continuing ongoing | 11.5 |

| | | |
|---|---|---|
| | operations<br>Starting from scratch | <br>69.0 |
| Joint venture<br>(<80% equity share for the MNC) | Yes<br>No | 20.7<br>79.3 |
| Size of HR department<br>(no. of people in HR) | 0-1<br>2-4<br>5-10<br>>11 | 25.3<br>49.4<br>9.2<br>16.1 |
| Background of HR manager<br>(place of recruitment) | Another MNC<br>A Chinese, company, school, university<br>Another Chinese unit of the MNC<br>Abroad<br>Other | 48.2<br>24.1<br>13.3<br>6.0<br>7.2 |
| Average subsidiary age | Years in the MNC | 7.55 |
| Industry sector | Industrial equipment<br>Electrical equipment<br>Chemicals & pharmaceuticals<br>Wood, pulp, & paper<br>Food, tobacco, and textiles<br>Metal, stone, rubber, glass & leather<br>ICT<br>Transportation equipment & logistics<br>Energy<br>Consulting<br>Construction<br>Medical equipment<br>Other | 19.5<br>12.6<br>6.9<br>6.9<br>5.7<br>5.7<br>10.3<br>5.7<br>3.4<br>4.6<br>3.4<br>3.4<br>11.5 |

Our data collection efforts resulted in a total of 153 interviews in 87 Chinese subsidiaries of European MNCs. This was a satisfying result considering our aim at the start of the project was to get 200 responses from 100 companies. The total number of

companies contacted was 311 giving a response rate of 28%. I conducted 72 of the interviews myself. The rest of the interviews were conducted by three research assistants who wrote their master's thesis based on data from the project, and by one of the professors involved in the project.

### 3.2. The respondents

In their review of research methodologies in international business Yang, Wang, and Su (2006) suggest that more effort needs to be made to include multiple respondents in surveys in order to improve internal validity and reduce the common method bias. Internal validity refers to the issues of causality, meaning how certain it is that the independent variable is causing variation in the dependent variable (Bryman and Bell, 2003). Common method bias refers to the difference between observed and true relationships among constructs and for instance Podsakoff, MacKenzie, Lee, and Podsakoff (2003) argue that common method bias is largely due to the use of single respondents, i.e. having the same respondent answer questions that are used to create the dependent variable and questions that are used to create the independent variables. Consequently, we chose to target both the HR manager and general manager as respondents in each of our target subsidiaries.

When measuring subsidiary HRM practices Huselid and Becker (2000) argue for the measurement of the practices that actually have been implemented in the subsidiary rather than those that were intended to be implemented but perhaps weren't. Using the general manager and HR manager as respondents raises the question of which HRM practices are actually measured, the intended or the actual. It is not certain that for instance HR managers always know what practices are actually used in the subsidiary or in which way they have been implemented, and that they consequently refer to the practices that they know were *intended* to be implemented. For instance Gerhart, Wright, and McMahan (2000) suggest that it if the aim is to get information about the actual practices it could make more sense to use employees as the source of data regarding HRM practices.

Whilst this is one relevant point, we also had to consider which people in the subsidiary would be most knowledgeable to answer our questionnaire which, in addition to

subsidiary HRM practices, also concerned the subsidiary-headquarters relationship including issues like subsidiary HQ-networks and resemblance of subsidiary practices with home country practices. Thus, because of this, and since our questionnaire focuses on HRM practices for managers and professionals as opposed to HRM practices for shopfloor employees of which general and HR managers may arguably have less knowledge, we chose the general manager and the HR manager as respondents for our questionnaire. In addition, considering that our sample subsidiaries are fairly small compared to the size of the units referred to by Gerhart et al. (2000) and Huselid and Becker (2000) it is feasible that the general and HR managers in our sample subsidiaries have at least a fair idea of the actual practices.

In 66 subsidiaries we managed to get interviews with both the HR manager and the general manager. In the remaining 21 we interviewed either the HR manager or the general manager. There was a clear division between the general and HR managers in our study regarding gender and nationality so that the general managers were, with very few exceptions, European men, whereas the HR manager position in most cases was held by a Chinese woman.

### 3.3. The data collection process

The collection of data took place between November 2005 and October 2006. The first step of the data collection process was to contact the European Chamber of Commerce in China (ECCC) as well as European embassies and trade councils to get lists of European subsidiaries in China and their contact details. In addition to the lists we acquired from the embassies and the ECCC, we used the snowballing method and existing contacts to find potential target companies. Following this we sent an e-mail with a project description and an interview request to the subsidiary general managers. In the e-mail we also ensured the anonymity and confidentiality of the respondents' answers. In cases where the HR managers' contact information was available we also contacted the HR manager directly by e-mail, otherwise the general manager often referred the contact details of the HR manager. We then scheduled interviews in subsequent e-mails or by telephone.

The data was collected through structured, face-to-face interviews using a questionnaire[1]. The questionnaire was tested in three separate pilot studies, one with a consultant and two with international HRM professionals. Based on the pilot studies one question was rephrased and clarified. Although some other concepts were also discussed and clarified during the pilot interviews (as would also be possible in the actual interviews) only one change was made to the original version of the questionnaire. This may be due to the fact that we, to the extent possible, relied on scales that had been validated in previous studies.

The interviews were organised so that the interviewer and respondent went through a quantitative questionnaire together, with the interviewer being the one to actually fill in the responses into the questionnaire. In general it took between 20 and 60 minutes to fill out the questionnaire. Following the completion of the questionnaire the respondent was offered the possibility to continue the interview, discussing certain topics in the questionnaire in greater detail (this qualitative data will be described in more detail in chapter 3.5).

Although conducting face-to-face interviews is both costly and time consuming, it is compensated by the higher reliability of the resulting data as opposed to data collected, for instance, by using a mail survey (Andersson, Forsgren, and Holm, 2001). Similarly Webster (1997) found that positive aspects of researcher presence in connection with survey completion include that fewer questions were left unanswered, the researcher was able to clarify possible questions that the respondent had regarding the questionnaire, and the researcher could ensure that the intended respondent really was the one answering the questions in the questionnaire. These advantages apply also to the current study even though the questionnaire was filled out by the interviewer and not by the respondent. Despite of the advantages of using a face-to-face method there are also some problems associated with it, perhaps most importantly that the presence of the interviewer may influence how the respondent answers some questions. For instance Webster (1997) found evidence of distortion in the presence of the researcher meaning

[1] Changes/cancellations in scheduled interview times or difficulty in deciding on a suitable time for the face-to-face interviews resulted in 9 respondents (2 HR managers and 7 general managers) being interviewed over the telephone.

that the respondents' truthfulness could be affected by the presence of another person when answering the questionnaire. Another issue in the current study is that five people conducted the interviews, which raises the question of consistency across interviewers (Fowler, 1988). However, this is likely to be more relevant in the case of unstructured interviews and on the whole the advantages of this approach can be considered to outweigh the disadvantages.

The questionnaire was in English and the language used during the interviews was primarily English but in some cases also Swedish or Finnish. When interviewing non-native speakers of English in English it can't be assumed that they will be completely comfortable expressing themselves in a foreign language (Welch, Marschan-Piekkari, Penttinen, and Tahvanainen, 2002). Whereas Swedish or Finnish could be used for clarification purposes in some interviews with general managers, it was not possible to use Chinese for the same purpose when interviewing the predominantly Chinese HR managers. This was because none of the interviewers had sufficient knowledge of the language. Despite that most of the HR managers did have a good command of English and that English was used as the corporate language in our target MNCs, it is likely that they too would have appreciated a similar opportunity.

### 3.4. Quantitative data and analysis

The choice to use a quantitative survey method was motivated by the existence of well validated constructs and measures for many of the key variables in the study. Furthermore, the use of a standardised questionnaire also facilitated comparison with already existing corresponding data from 1996 and 1999. The main analysis method for the quantitative data was multiple regression analysis which was used in four of the five quantitative papers. In addition, factor analysis was used in papers 3 and 4 to test the discriminant validity of the dependent variables. Paired sample t-tests was used as the main method of analysis in paper 2, and also in papers 1 and 6 to justify the use of the mean of the HR managers' and the general managers' responses from 2006 dataset. I will now go on to describe the design of the 2006 questionnaire in greater detail and also the data from 1996 and 1999.

### *3.4.1. The design of the 2006 questionnaire*

The questionnaire began with a set of general questions about the subsidiary, such as number of employees, age, years in the MNC, and establishment mode. There were also questions regarding the size of the parent MNC and its activities in China, as well as questions about the size and scope of the subsidiary HR department. In cases were we had two respondents these questions were answered only by one manager, most commonly the general manager. The questions following this were more specifically related to the subsidiary's HRM practices and the operationalisations of key variables is illustrated in Table 2. The full-length questionnaire can be found in Appendix 1.

**Table 2 Operationalisation of key variables**

| Construct | Operationalisation | Adapted from |
|---|---|---|
| Resemblance of subsidiary HRM practices with:* | | |
| i) MNC home country practices | Compared with the MNC's home country practices the subsidiary HRM practices are (1) very similar … (7) very different | Rosenzweig and Nohria (1994) and Hannon et al. (1995) |
| ii) Local company practices | Compared with local company practices the subsidiary HRM practices are (1) very similar … (7) very different | Rosenzweig and Nohria (1994) and Hannon et al. (1995) |
| Integration mechanisms: ** | | |
| i) People-based | The subsidiary's HRM practices are discussed with headquarters in meetings, personal contact & committees/task forces: (1) do not agree … (7) entirely agree | Kim et al. (2003) |
| ii) Formalization-based | Monitoring is used, there exist fairly well specified worldwide standard operating procedures, there exist fairly well specified worldwide common rules and policies: (1) do not agree … (7) entirely agree | Kim et al. (2003) |
| iii) Information-based | There exist databases to share information internationally, information is exchanged through worldwide electronic communication systems, and information exists on sophisticated worldwide integrated information systems: (1) do not agree … (7) entirely agree | Kim et al. (2003) |
| iv) Centralization-based | The HRM practices used in the subsidiary are decided by headquarters rather than by the subsidiary: (1) do not agree… (7) entirely agree | Kim et al. (2003) |

| | | |
|---|---|---|
| Technical HRM capabilities | Rate the current capabilities of the HR department in developing, implementing and maintaining appropriate recruitment and selection processes, training and development programs, compensation systems, and performance appraisal systems: (1) poor… (5) excellent | Mitsuhashi et al. (2000) |
| Strategic HRM capabilities | Rate the extent to which the HR department is i) involved in the strategic planning process, ii) responsible for achieving current and future business goals, iii) viewed by those outside the function as partners in the management of business and agents for change: (1) not at all … (5) very much | Becker and Huselid (1998) and Mitsuhashi et al. (2000) |
| Internal and external social networks: | | |
| i) Contact with other MNCs | Subsidiary managers and professionals have engaged in discussions on HRM issues with people in other MNCs in i) business-related meetings, ii) personal contact, iii) professional organizations/committees: (1) do not agree … (7) entirely agree | Kim et al. (2003) |
| ii) Contact with local Chinese companies | Subsidiary managers and professionals have engaged in discussions on HRM issues with people in local Chinese companies in: i) business-related meetings, ii) personal contact, iii) professional organizations/committees: (1) do not agree … (7) entirely agree | Kim et al. (2003) |
| Strategic role of the subsidiary HR department | Rate the extent to which the HR department is i) involved in the strategic planning process, ii) viewed by those outside the function as partners in the management of business and agents for change, iii) your subsidiary makes an explicit effort to align business and HRM strategies: (1) not at all … (5) very much | Becker and Huselid (1998) |

*) The questions were asked concerning local managers and professionals and in connection with the following HRM practices: methods and criteria for recruitment, amount and content of training, methods and criteria for determining financial bonuses, methods and criteria for performance appraisal.

**) The questions were asked in connection with the following four HRM practices: recruitment and selection, training and development, financial compensation, and performance appraisal.

Construct validity has to do with the question of whether a construct actually reflects the concept that it was designed to reflect (Bryman and Bell, 2003). Construct validity was considered in the following ways when designing the questionnaire used in the five

quantitative thesis papers. Firstly, we made sure that all the constructs we used were anchored in previous theory. Particularly influential in this regard was the work by Rosenzweig and Nohria (1994), Hannon et al. (1995), Becker and Huselid (1998), Mitsuhashi et al. (2000), and Kim et al. (2003). Secondly, whenever possible we adopted existing, validated operationalisations from the above mentioned studies. Thirdly, when we were unable to find directly applicable existing measures we carefully adapted suitable measures building on similar, previously validated measures. For instance the constructs we used for capturing managers' external contacts/networks were adapted from the operationalisation of Kim et al. (2003) of internal personal-based contact within the MNC. Finally, in order to check for face validity we pre-tested the questionnaire with one consultant and two international HRM professionals in three separate pilot interviews.

#### *3.4.2. The data from 1996 and 1999*

In addition to the questionnaire data gathered in 2005-2006, paper 1 also builds on questionnaire data collected between January 1996 and February 1997. The 1996 sample consists of 57 European-owned units mostly located in Beijing, Shanghai or the Guangdong province. On the whole the data collection process in 1996 was very similar to the data collection process in 2006 data which is described in section 3.1. The data was collected from either a top manager or a human resource/personnel manager. The subsidiaries in the 1996 sample represented similar kinds of industries as in the 2006 sample and four of the subsidiaries were part of both data sets. The total number of companies contacted in 1996 was 104, which implies a response rate of 55%.

The measures used from the 1996 questionnaire concern the extent to which subsidiary HRM practices resemble parent MNC practices and practices of local companies. The questions are exactly the same as in the 2006 questionnaire, i.e. compared to the MNC's home country operations, the [subsidiary's HRM practices] are very similar (1) … very different (7)'. The same question was asked relating to the degree of resemblance with the practices of local companies. The questions were asked in connection with the same four HRM practices as in 2006. Based on the dual data sets we conducted regression analyses and compared descriptive data.

Paper 4 builds on the 2006 questionnaire data as well as on similar data collected in 1999. The 1999 data set was collected in 1998 and 1999 from a sample of 60 Western MNC subsidiaries located in Beijing, Shanghai or the Guangdong province. This data was also collected through the same kind of process as the 1996 and 2006 data. One distinction was that in addition to English, Swedish, Finnish, and Mandarin was also used during the interviews. The respondent was either a top manager or a human resource/personnel manager. None of the subsidiaries in this sample were part of the 2006 data set. After controlling for missing values the final dataset from 1999 consisted of 59 subsidiaries.

The measure used from the 1999 questionnaire to create the dependent variable of the regression analysis in paper 4 was strategic role of the HR department. It was measured in the same way as in 2006, i.e. by asking the respondents to answer three questions on a 5-point Likert scale where 1 = "not at all" and 5 = "very much". The questions which were adapted from Becker and Huselid (1998) were the following: rate the extent to which *i) the HR department is involved in the strategic planning process, ii) HR managers are viewed by those outside the HR function as partners in the management of business and agents for change, iii) your subsidiary makes an explicit effort to align business and HRM strategies.* The independent variables included background of the HR manager, number of expatriates, subsidiary size, and size of the HR department.

### 3.5. Qualitative data and analysis

Paper 5 builds on face-to-face interviews with general managers and HR managers in Chinese subsidiaries of Nordic MNCs. It uses a multiple-case study approach which according to Yin (2003) is especially useful when *'how'* and *'why'* questions are being asked. More precisely it could perhaps be classified as a 'large N' case study where breadth is emphasized over depth in terms of the interviews (Piekkari, Welch, and Paavilainen, 2008). The selection of cases nonetheless followed the recommendations for a multiple-case study which propose that cases should be selected either to achieve literal or theoretical replication. This implies that cases are chosen either to predict similar results or to predict contradictory results but for predictable reasons. (Yin, 2003) Consequently, care was taken to ensure theoretical replication by choosing subsidiaries

of different size, industry, age and mode of establishment. Literal replication was addressed by including multiple subsidiaries with these different characteristics.

Using replication logic served to enhance the external validity of the study. Construct validity was addressed by the use of double respondents in the target subsidiaries, i.e. data triangulation (Yin, 2003). Yin (2003) posits that the findings are likely to be more convincing and accurate when based on multiple sources since it means you are using *'converging lines of enquiry'*. Internal validity is only applicable to explanatory studies trying to determine a causal relationship (Yin, 2003) and is thus not a concern in paper 5 which is an exploratory study.

The data for paper 5 consists of face-to-face interviews with 20 general managers and 20 HR managers in Chinese subsidiaries of 23 Nordic MNCs. In 17 subsidiaries I interviewed both the general manager and the HR manager, whereas I in the remaining 6 subsidiaries spoke with either the general manager or the HR manager. My reasons for selecting these 40 interviews out of the 51 interviews I conducted in total (25 with HR managers and 26 with general managers), are the following. Firstly, in order to minimise the country of origin effect I decided to include only interviews conducted in subsidiaries of Nordic MNCs. Secondly, I chose to focus on subsidiaries in which I had interviewed both the general manager and the HR manager. In addition to this, however, I chose to include 6 additional interviews from subsidiaries in which I had conducted interviews with only one respondent (in 3 cases with the HR manager and in 3 cases with the general manager) since I considered these to be especially informative and provide rich descriptions regarding for example specific networks. Finally, I chose to exclude a few interviews that were cut short in the middle due to time restraints, as well as a few interviews that were not able to be carried out as scheduled and instead had to be carried out later over the telephone. Out of the participating general managers 19 were male and 1 was female. 9 were Swedish, 7 Finnish, 1 Norwegian, 1 Australian, 1 American, and 1 was Chinese. 4 of the general managers did not come from the same home country as the MNC. Out of the participating HR managers 4 were male and 16 female. 19 were Chinese, and 1 was Finnish.

I conducted the interviews in connection with the research project described above. Although collecting the data in this way is both time consuming and costly it does carry

advantages compared to for instance telephone interviews. Daniels and Cannice (2004) argue that face-to-face communication is an ideal way for getting in-depth information, and posit that one indication of this is that business travel is still so high today despite of all the advances made within communication technology.

The interviews were conducted following that the respondent and interviewer together had filled out the questionnaire described in section 3.4.1. The respondents had been informed of this second part of the interview beforehand and were, after the questionnaire had been filled out, again asked if they would like to go on discussing some related questions in greater detail. In general this discussion took between 20 and 60 minutes, largely depending on how much time the respondent was willing to devote to this discussion. Although not all respondents were willing to or had time to participate in the second part of the interview 51 out of the 72 respondents that I interviewed chose to participate.

The discussion during the interviews focused on two main themes: the HR managers' access to and use of internal and external social networks and the effect of these in terms of the development of strategic and technical HRM capabilities. In practice this meant starting out by asking respondents whom they talk to, in what kind of settings, and regarding what kinds of issues. Respondents were asked to focus on HRM issues relating to recruitment and selection, training, compensation, and appraisal as well as on HRM in connection to strategy. Following this the discussion moved on to cover what influence the involvement in various settings was perceived to have on the HR managers' own learning and how this in turn was perceived to influence the development of HRM capabilities in the subsidiary.

The same language issues apply to the second part of the interview as those that were discussed in regard to the process of filling out the questionnaire (see section 3.3). The variety in the use of language during the interviews (English, Finnish and Swedish) is likely to affect the dynamics of the interview situation (Marschan-Piekkari and Reis, 2004). Another thing that is likely to have had an influence on the discussion in the second part of the interviews is that it followed straight after the filling out of the questionnaire. This can have had implications on the subsequent discussion such as the respondent being tired and less focused or experiencing time constraints, as was actually

the case in some instances. It is also feasible that the questions in the questionnaire can have influenced the respondent to focus more on certain issues in the subsequent discussion than what would perhaps otherwise have been the case.

The interviews were recorded and transcribed. The transcripts were then carefully read and re-read several times before starting with the actual content analysis, including the coding and categorisation of data. The information was first organised according to the broad questions in the interview guide and then later reorganised again as new ideas and categories developed. Following the suggestion by Yin (2003) I worked using a matrix with different categories into which I inserted the information.

# 4 SUMMARIES OF THE PAPERS

## 4.1. Paper 1: Changes in institutional context and MNC operations in China: subsidiary HRM practices in 1996 versus 2006

Authors: Ingmar Björkman, Adam Smale, Jennie Sumelius, Vesa Suutari and Yuan Lu

Data: Two sets of quantitative questionnaire data from European MNC subsidiaries located in China. The first dataset consisting of 57 units was collected in 1996, and the second dataset consisting of 87 units was collected in 2006.

In this paper we investigate the changes that have taken place between 1996 and 2006 in the HRM practices found in European MNC subsidiaries in China. The focus is on four practices, namely recruitment and selection, training and development, financial compensation and performance appraisal. This enables us to examine changes in the general resemblance of subsidiary HRM practices compared to local company and parent MNC practices, as well as changes regarding individual HRM practices.

Previous research has argued that MNC subsidiaries exist under conditions of institutional duality (Westney, 1993; Kostova and Roth, 2002), which implies that they are subject to (conflicting) institutional pressures both from their local host-country environment as well as from the internal MNC environment. Within the frame of the discussion on institutional duality several HRM studies have examined the extent of global standardisation and/or local adaptation of HRM practices in MNC subsidiaries (Björkman and Lu, 2001; Gamble, 2003; Hetrick, 2002; Rosenzweig and Nohria, 1994). Despite of this, no large sample study has been conducted on how subsidiary HRM practices have changed over time as a result of changes taking place in the environments in which they operate.

We present two hypotheses in this paper. Firstly, we hypothesize that the HRM practices in European-owned MNC subsidiaries in China resemble those of local companies more closely in 2006 than they did in 1996. Drawing on institutional theory we argue that this is due to the changing coercive, mimetic, and normative isomorphic pressures (DiMaggio and Powell, 1983) in the Chinese environment which, among

other things, have led to a shift from traditional Chinese personnel practices to more Western-style HRM practices (Braun and Warner, 2002). In addition to the increased similarity with local company practices we hypothesize that the HRM practices in European MNC subsidiaries in China also resemble those of the parent MNC more closely in 2006 than they did in 1996. Similarly to external institutional pressures, MNC subsidiaries are also subject to internal isomorphic pressures. Convergence between subsidiary HRM practices and parent MNC practices is likely to have increased between 1996 and 2006 as a result of an increased effort on behalf of the MNC to achieve global integration.

We found support for both hypotheses, which indicates that subsidiary HRM practices during 1996 and 2006 have on the whole become more similar to those of both local Chinese companies as well as the parent MNC. Nonetheless, differences between different HRM practices were apparent. Compensation was the practice that showed most evidence of convergence with local Chinese companies, followed by methods of recruitment. Concerning resemblance with parent company practices, training was the practice that appeared to have converged the most during the period of our study.

### 4.2. Paper 2: HRM integration mechanisms in MNCs: European subsidiaries in China

Authors: Adam Smale, Ingmar Björkman, Jennie Sumelius and Vesa Suutari

Data: Quantitative questionnaire data collected in 2006 from 76 European MNC subsidiaries located in China.

Several studies have posited that we need to increase our understanding of the processes through which HRM policies and practices are integrated in MNC subsidiaries (Björkman and Lu, 2001; Rosenzweig and Nohria, 1994). Consequently, in this paper we examine the extent to which different HRM practices are integrated through different integration mechanisms. Following Kim et al. (2003) we distinguish between four integration mechanisms: people-, formalisation-, information- and centralisation-based mechanisms. We focus on four HRM practices, namely recruitment and selection, training and development, financial compensation, and performance appraisal.

We consider global integration to comprise both control and coordination. This is in accordance with Cray (1984) who argues that control refers to headquarters use of power and authority in order to regulate the subsidiary's activities, whereas coordination implies the development of linkages between different MNC subsidiaries. However, we argue that this conceptualisation does not capture the multiple aims of global integration or the ways in which global integration takes place in the MNC. Thus, we suggest three complementary aims of global integration: i) the control of foreign subsidiary operations, ii) the efficient transfer of practices to foreign units, and iii) the appropriate adaptation of activities which requires an understanding of parent practices and local conditions.

We develop four hypotheses concerning the extent to which different HRM practices are integrated through different integration mechanisms at varying levels of intensity depending on the integration aims. We propose that the suitability of the four integration mechanisms depends on the relative importance of the three suggested integration aims. We argue that the main aim for integrating financial compensation in subsidiaries is control, followed by transfer and adaptation. Thus, in our first hypothesis we propose that financial compensation will be integrated most extensively via (i) centralisation-based mechanisms, then (ii) formalisation-based mechanisms, then (iii) people-based and information-based mechanisms. Concerning performance appraisal we argue that the main integration aim is transfer, then control and lastly adaptation. Following from this we argue in our second hypothesis that performance appraisal will be integrated most extensively via (i) formalisation-based mechanisms, then (ii) centralisation-based mechanisms, then (iii) people-based and information-based mechanisms. The main aim for integrating both training and development, and recruitment and selection is adaptation, followed by transfer and control. Thus, we suggest that training and development (hypothesis 3), and recruitment and selection (hypothesis 4), will be integrated most extensively via (i) people-based and information-based mechanisms, then (ii) formalisation-based mechanisms, then (iii) centralisation-based mechanisms.

We found support for hypothesis 2, and partial support for hypotheses 1 and 3. Hypothesis 4 was rejected. Our findings indicate that MNCs use different integration mechanisms across different HRM practices and that this is done at varying levels of

intensity. Most evident was that centralization was used much more for integrating financial compensation than for any other practice. Formalisation-based mechanisms were most commonly used to integrate performance appraisal, whilst the use of information-based mechanisms was marginally greater for training and development and recruitment and selection. The use of people-based mechanisms did not vary significantly across different practices.

### 4.3. Paper 3: Antecedents of HRM integration mechanism usage in MNC subsidiaries in China

Authors: Adam Smale, Ingmar Björkman and Jennie Sumelius

Data: Quantitative questionnaire data collected in 2006 from 76 European MNC subsidiaries located in China.

There is little existing research on the mechanisms used to integrate HRM in MNC subsidiaries. In this paper we investigate the antecedents of HRM integration mechanism usage in MNCs. More precisely the aim of this study is to examine MNC and subsidiary structural factors that explain the use of different HRM integration mechanisms, and to examine how these factors/antecedents vary in importance across different integration mechanisms. We use the classification of integration mechanisms of Kim et al. (2003), which separates between four mechanisms: people-based, formalisation-based, information-based, and centralisation-based. However, based on a factor analysis which indicated that formalization and information-based mechanisms converged as one factor, we combined them into one group.

We propose six hypotheses which we divide into two groups; motives and ability. The first group refers to factors that affect the motives of the parent to use HRM integration mechanisms, and the second to factors that affect the parent's ability to use HRM integration mechanisms. The motives group includes three factors, namely subsidiary size, interdependence between parent and subsidiary, and the capital intensity of subsidiary operations, and we argue that all three are positively associated with the use of HRM integration mechanisms. We posit that subsidiary size can be considered as one characteristic of a strategically important subsidiary and that the parent will therefore

direct more effort to integrating larger subsidiaries than smaller subsidiaries. Regarding interdependence our argument is that the higher the degree of dependence of the MNC on a particular subsidiary, or vice versa, the more extensive integration efforts the subsidiary will be subject to. Similarly, we posit that the more capital intensive the operations of the subsidiary, the more HRM integration mechanisms will be used.

The second group of factors affecting the use of HRM integration mechanisms is ability-related factors; number of expatriates, size of the MNC, background of the HR manager, and subsidiary ownership. We hypothesize that the greater the presence of expatriates in the subsidiary, the more HRM integration mechanisms will be used since expatriates facilitate the use of various forms of integration, for example centralization. The size of the MNC will be positively related to the use of integration mechanisms since larger MNCs have more resources at their disposal for integration efforts. Further we hypothesize that the background of the HR manager will affect the use of integration mechanisms. We argue that a HR manager who has been recruited from within the MNC or from another MNC probably has a greater knowledge of HRM issues in international companies and that this enables a more extensive use of integration mechanisms. Finally, we hypothesize that subsidiary ownership will influence the use of integration mechanisms so that integration mechanisms will be used to a greater extent in wholly-owned foreign subsidiaries than in joint ventures. The reason we suggest for this is that there in the case of a joint venture exists pressure from both the MNC and the local partner which constrains the MNCs use of integration mechanisms.

Our results show support for the influence of the number of expatriates and the capital intensity of subsidiary operations on the use of HRM integration mechanisms. There was some variation in the importance of these antecedents across different integration mechanisms. For people- and formalisation-based mechanisms the antecedents were the same as for integration mechanisms as a whole with the exception that people based mechanisms seem to be used considerably less in subsidiaries in which the HR manager has been recruited from within the MNC or from another MNC and formalisation-based mechanisms were used more commonly in larger MNCs.

## 4.4. Paper 4: The influence of internal and external social networks on HRM capabilities in MNC subsidiaries in China

Author: Jennie Sumelius, Ingmar Björkman and Adam Smale

Data: Quantitative questionnaire data collected in 2006 from double respondents in 66 European MNC subsidiaries located in China.

Much of the existing HRM research has focused on *what* subsidiary practices look like, i.e. the extent to which they resemble MNC practices and/or local company practices. Considerably less work has focused on issues of process regarding HRM, in this case on *how* HRM practices develop into their current form. This paper investigates how the capabilities to develop, adopt, and maintain appropriate HRM practices in the subsidiary are created.

Developing the HRM capabilities that enable the creation and renewal of HRM practices has been argued to be a potential source of competitive advantage for MNCs (Ulrich et al., 1995). Despite of this few studies have focused on the development of HRM capabilities, and more precisely on the source of these capabilities (Morris et al. 2006). Social networks have been suggested to provide benefits in connection with the development of subsidiary capabilities (Subramaniam and Youndt, 2005; Truss and Gill, 2005) since they enable access to new knowledge sources (Nahapiet and Ghoshal, 1998; Tregaskis, 2003). Nonetheless, prior research has had a tendency to focus on either external or internal networks but seldom on both (Adler and Kwon, 2002).

Consequently, the aim of this study is to examine how involvement of subsidiary managers and professionals in internal and external social networks influences the development of technical and strategic HRM capabilities in the subsidiary. Our focus is on capabilities in relation to four HRM practices- recruitment and selection, training and development, financial compensation, and performance appraisal. We distinguish between two kinds of subsidiary HRM capabilities – technical and strategic. We define technical HRM capability as 'The ability to develop, implement and maintain appropriate activities related to traditional HRM practices in the subsidiary such as compensation, training, performance appraisal and recruitment' and strategic HRM

capability as 'The ability to align the subsidiary's HRM activities with the business strategies of the firm'.

The core of the argument in this paper is that contact with others, both internally within the MNC and externally with actors in the local environment, provides an opportunity to access knowledge and ideas that are not available in the subsidiary. Furthermore, since the Chinese institutional environment has not been characterized by Western HRM practices, we argue that MNCs primarily look at other MNCs as role models regarding HRM in China. We propose that contact with other MNCs in China regarding HRM issues will be positively associated with the level of technical and strategic HRM capabilities in the subsidiary. We further argue that contact with local Chinese companies will be positively associated with the subsidiary's level of technical HRM capabilities but that this contact will have no effect on the level of strategic HRM capabilities in the subsidiary. Regarding internal MNC networks we propose that contact with HQ through people-based mechanisms to discuss HRM issues will be positively associated with the subsidiary's level of technical strategic HRM capabilities.

Our results show that contact with other MNCs indeed has a positive influence on both technical and strategic HRM capabilities. This suggests that MNCs are important drivers of mimetic and normative isomorphic processes regarding HRM in China. On the contrary, contact with local Chinese companies is not perceived as valuable for helping to further develop the HRM capabilities of MNC subsidiaries. Contact with MNC headquarters showed a positive influence on the level of strategic HRM capabilities in the subsidiary. This suggests that the subsidiary can benefit from accessing the MNC's corporate body of knowledge concerning various HRM practices.

### 4.5. Paper 5: Social networks and subsidiary HRM capabilities: The case of Nordic MNC subsidiaries in China

Author: Jennie Sumelius

Data: Qualitative data consisting of 40 interviews conducted in 2006 with General Managers and HR Managers in 17 Chinese subsidiaries of European MNCs.

Similarly to paper 4, this paper also examines the internal and external social networks in which subsidiary general managers and HR managers discuss HRM issues and how their involvement in these networks influences subsidiary HRM capabilities. However, whereas in paper 4 we develop and test hypotheses using quantitative questionnaire data, this paper builds on qualitative data and provides an in-depth description of the managers' internal and external social networks. This exploratory study has a strong empirical focus. By means of an informal network analysis I examine with whom HR and general managers discuss HRM, in what kind of settings this happens, and what issues and practices they discuss most.

The focus of this study is on *how* subsidiary HRM capabilities, that influence the development of subsidiary HRM practices, develop. The study is also a response to calls for more research regarding the sources of HRM capabilities (Morris et al. 2006, Roehling et al. 2005). Prior research points to the importance of social networks in this regard (Subramaniam and Youndt, 2005; Truss and Gill, 2005) since they provide a possibility gain access to new knowledge and ideas (Tsai and Ghoshal, 1998). Furthermore, for instance Björkman and Lu (1999) found that involvement of managers in various networks of both social and professional nature constitutes an important means for learning about HRM in the Chinese context.

In this study I examine the networks of subsidiary HR managers and subsidiary general managers. Externally I distinguish between MNC networks and networks with local Chinese companies and internally I divide the networks into global, regional, and subsidiary-internal networks. Both general and HR managers perceived networks with other MNCs to be very valuable for learning about HRM. HR managers were primarily in contact with other HR managers and general managers with other general managers. This division is in line with findings from previous studies (e.g. Björkman et al., 2007) which indicate that HR managers in MNCs tend to be part of networks consisting of peers from other MNCs. This division can be the result of factors such as national-cultural similarity, shared language, and similarity of status (Mäkelä et al., 2007). Neither the HR nor the general managers considered networks with local Chinese companies to be particularly useful forums in which to learn about HRM. Reasons for this included the respondents' perceptions that Chinese companies are very different to

MNCs and the predominantly European general managers' lack of knowledge of the Chinese language.

Internally the general managers usually had more extensive networks than the HR managers, probably due to previous work experience in other parts of the MNC. Both HR managers and general managers considered contact with headquarters and corporate HR to be a good way of accessing existing MNC knowledge, and getting information and ideas about past experiences that could be helpful for handling similar matters in the own subsidiary. Regional networks were perceived to be useful primarily by the HR managers who considered them to be valuable since they incorporated both the company specific context and the local/regional context. Regarding the subsidiary internal context, the general managers appeared to value it more than the HR managers did. The general managers said they learned a fair deal about HRM issues e.g. from the HR manager.

### 4.6. Paper 6: The strategic role of the HR department in MNC subsidiaries in China between 1999 and 2006

Author: Jennie Sumelius

Data: Two sets of quantitative questionnaire data from Western MNC subsidiaries located in China. The first dataset consisting of 59 units was collected in 1999, and the second dataset consisting of 83 units was collected in 2006.

Recent studies indicate that the role of the HR department in China, where the HR department has traditionally had an administrative role, is becoming more strategic (e.g. Bowen et al. 2002; Zhu, Cooper, De Cieri, and Dowling, 2005). In this paper I examine factors that influence the strategic role of the HR department in MNC subsidiaries in China between 1999 and 2006 as well as the change in the role of the HR department during this time period. Contrary to most of the existing research on the role of the HR department in MNCs which focuses primarily on the role of the corporate HR department, the focus of this paper is on the role of the subsidiary HR department.

The roles of HR professionals have been conceptualized in a variety of ways (e.g. the typologies by Storey, 1992 and Ulrich, 1997), but these roles have increasingly become

more complex and hard to distinguish from each other (Caldwell, 2003). Despite of the increasing role conflict there is general consensus in the literature that some of the responsibilities of the HR department are related to more technical tasks and some to issues of a more strategic nature. In this paper I consider the role of the HR department to be strategic if the subsidiary makes an explicit effort to align business and HRM strategies and the HR department is involved in the strategic planning process.

I develop and test a set of four hypotheses. The first hypothesis posits that the role of the HR department in MNC subsidiaries in China was more strategic in 2006 than it was in 1999. As we found in paper 1 (Björkman et al., 2008), HRM practices in MNC subsidiaries in China have become increasingly similar to MNC home country practices (and local practices) between 1996 and 2006. Thus, I argue that changes in the Chinese institutional environment lead the HR department in MNC subsidiaries to focus more on the concept of Western HRM, which includes according more importance to a strategic role for HR. The results indicate support for Hypothesis 1.

The second hypothesis states that the role of the HR department will be less strategic in subsidiaries in which the HR manager was recruited from a local Chinese company or university. The underlying assumption here is that HR managers with a background in a local Chinese company are more likely to consider local views on HRM and HRM practices as appropriate and taken for granted, resulting in less emphasis on a strategic role since the HR department in China traditionally has been predominantly administrative. This hypothesis was rejected. In the third hypothesis I suggest that the relative number of expatriates will be positively associated with the strategic role of the HR department. This is in line with previous studies which found that the HRM practices of subsidiaries with more expatriates tend to resemble MNC home country practices to a greater extent (e.g. Myloni et al., 2007) and that expatriates are less likely to be influenced by local institutional pressures (Björkman et al., 2007). No support was found for Hypothesis 3.

Finally, I hypothesize that the size of the subsidiary and the size of the HR department influences the strategic role of the HR department positively. Larger subsidiaries have more resources and therefore greater possibility to focus on strategic HRM. Similarly, larger HR departments more likely to have enough staff members ensure that

administrative HRM is taken care of the HR department can also focus on strategic HRM. The results showed that both the size of the subsidiary and the size of the HR department have a positive influence on the role of strategic HRM.

# 5 DISCUSSION

## 5.1. Main findings and contributions

The main purpose of the papers in this thesis is to enhance our understanding of the processes that shape HRM in MNC subsidiaries, an issue which has not received much attention in foregoing research (Huselid et al., 1997; Truss and Gill, 2005). On the whole the focus on *'how'* is the main contribution of the thesis namely, *how* are HRM practices integrated in MNC subsidiaries, and *how are* subsidiary HRM capabilities developed through involvement in social networks. Furthermore, this thesis includes a time aspect which, despite not being purely longitudinal, provides an indication of the ongoing changes in HRM in MNC subsidiaries in China. This answers calls made in previous research (Zhu et al. 2005; Zhu, Thomson, and de Cieri, 2008) to incorporate a longitudinal research design when examining HRM in the Chinese context.

Four research questions were formulated at the beginning of the thesis and these will now be discussed in greater detail below. The findings and contributions of the thesis in regard to the first research question which is addressed in paper 1 and the second research question which relates to papers 2 and 3 are presented below in section 5.1.1. The findings and contributions in connection with the third research question which is addressed in papers 4 and 5, as well as the fourth research question which is the focus of paper 6 are discussed in the subsequent section.

### *5.1.1. Subsidiary HRM practices- convergence and integration*

The first research question addressed in this thesis concerns the extent to which subsidiary HRM practices resemble parent MNC and host country practices and how and why this has changed over time. In paper 1 we found that notable changes had taken place in the HRM practices of subsidiaries of European MNCs located in China between 1996 and 2006. During this time period subsidiary practices had overall become more similar to both parent company practices as well as the practices of local Chinese companies. In regard to the convergence with the practices of local Chinese companies our findings suggest, on the one hand, that MNCs may be forced to adapt certain HRM practices, like compensation for instance, to the local Chinese context. On

the other hand, our study also suggests that MNCs are influencing Chinese companies in their view of what is considered as appropriate HRM in the Chinese context. This could be indicative of deinstitutionalization (Oliver, 1992; Westney, 1993), which implies that existing organizational patterns erode or discontinue as a result of changes that influence what is considered legitimate. In this case it implies that MNC subsidiaries introduce new ways of doing things which gradually become internalized and taken for granted in their host-country context, thus challenging existing HRM in Chinese companies.

The major contribution of the thesis in regard to the first research question is that it examines the previously scarcely studied question of how subsidiary HRM practices change over time. It is also the first large-scale study in the Chinese context that provides concrete evidence of convergence of MNC practices with the practices of local Chinese companies. Since it shows that the practices of MNC subsidiaries in China are converging not only with local company practices but also with parent company practices, our study is interesting in the sense that it shows that the isomorphic pressures the subsidiary faces from the MNC and from its local host environment are not always necessarily in conflict with each other (Westney, 1993; Kostova and Roth, 2002).

The second research question in the thesis concerns how HRM practices are integrated into MNC subsidiaries and why certain integration mechanisms are used. The main contributions of the two thesis papers that relate to this research question are threefold. First, we provide a fine-grained examination of four mechanisms that MNCs use to integrate HRM practices in MNC subsidiaries. Our findings indicate that the MNCs in our study used various mechanisms, but that no particular mechanism was used very widely. This seems to suggest that rather than being substitutes, MNCs are using different integration mechanisms as complements.

Second, we provide an explanation for the differential use of mechanisms by proposing that there exist three complementary aims for integrating individual HRM practices, thus answering calls to further investigate factors that predict differences in mechanisms usage (Gomez and Sanchez, 2005). We suggest that the aims are control, transfer, and adaptation and argue that their relative importance differs in regard to individual HRM practices. We posit that this in turn influences which mechanisms are more or less

suitable to integrate the different practices. Our study of patterns of integration mechanism usage showed that there exist systematic differences in the mechanisms used to integrate different HRM practices and that these can at least partly be explained by differences in integration aims.

Finally, as a response to calls to further explore reasons behind the use of different control mechanisms (Smale, 2007) we examined how different subsidiary characteristics, as well as characteristics of the MNC and the subsidiary headquarters relationship influence the use of different integration mechanisms. We separated between motivation- and ability- based antecedents and found that the one of the most important factors influencing the use of integration mechanisms was the number of expatriates in the subsidiary. This suggests that expatriates not only function as a personal-based integration mechanism themselves, but that they in addition influence the use of other integration mechanisms.

### *5.1.2. Subsidiary HRM capabilities and the role of the HR department*

The third research question in the thesis has to do with how involvement in internal and external social networks influences subsidiary HRM capabilities. Papers 4 and 5 in the thesis both address this research question, and contribute to existing literature in the following ways. Both studies point to the importance of network involvement for learning about HRM practices in the Chinese context and about how to further develop HRM in the own subsidiary. This is in line with previous research that suggests that contact with people in the same situation is particularly valuable when ascertaining the usefulness of new practices (Evans et al., 2002). Networks with other MNCs in China clearly emerged as particularly important contributors to enhanced HRM capabilities, pointing to the power MNCs have in shaping HRM practices, at least in the Chinese context.

An important contribution in paper 4 is the distinction between technical and strategic subsidiary HRM capabilities and different internal and external networks. This responds to calls to incorporate both internal and external networks in the same study in order to draw attention to the importance of both, as well as to the interplay between internal and external (Adler and Kwon, 2002). In the current study the disctinction between internal

and external also serves to further our understanding of which capabilities are developed through involvement in the various networks. Paper 5 on the other hand focuses on describing the social networks of subsidiary HR and general managers in greater depth. A central contribution is that it illustrates the important boundary-spanning role (Kostova and Roth 2003) that HR and general managers play in the development of subsidiary HRM. Both managers act as boundary spanners albeit in slightly different ways with the general manager acting more as a bridge between headquarters and the subsidiary and the HR manager playing a similar role in regard to the local environment. Furthermore, the findings highlight significant differences between the networks of HR managers and general managers in terms of gender and nationality, and expatriate and local. The general managers were almost exclusively European men, whereas the HR managers were almost always Chinese women. This indicates that interpersonal similarity at least to some extent acts as a driver for interaction and knowledge sharing (Mäkelä, Kalla, and Piekkari, 2007).

Although papers 4 and 5 basically address the same research question, and the findings of the two studies are similar, they complement each other since they approach the research problem in slightly different ways and using different methods. The quantitative study in paper 4 supports the findings in paper 5 and the fact that it is conducted on a larger sample increases the possibility to generalize the findings across MNCs. Paper 5 in turn complements paper 4 by providing a richer description of the various networks in which subsidiary managers are involved.

The fourth and final research question in the thesis concerns factors that influence the strategic role of the subsidiary HR department. The most interesting contribution of the thesis in this regard is that the longitudinal design of the study in paper 6 provides a snapshot of the role of the subsidiary HR department between 1999 and 2006. It suggests that the role of the subsidiary HR department had become more strategic between 1999 and 2006, and thus supports the findings of previous studies (Braun and Warner, 2002). Furthermore, the results also indicate that size matters for the role of the subsidiary HR department so that the HR department has a more strategic role in larger subsidiaries and in subsidiaries with larger HR departments.

## 5.2. Limitations and suggestions for future research

This thesis is subject to some limitations. Concerning the generalisability of the study it is relevant to note the following things. First, the rapidly changing Chinese business environment means that it is uncertain to which extent the findings of this thesis can be applied to other host-country contexts. Second, when interpreting the findings of this study it is worth noting that the data for the thesis papers were collected in the Shanghai and Beijing areas. This is important since there in addition to differences between different host-country environments may exist regional differences in China regarding the activities of MNC subsidiaries. Third, the fact that all the sample companies were European MNCs (predominantly Nordic) and that country of origin effect was not considered can also have implications on the extent to which the findings of this thesis can be generalised. Thus, more research is needed in different institutional contexts, both in other transition countries exhibiting similar features as the Chinese context, and in countries that are both institutionally and culturally more similar to European MNCs. Future studies could also explore the issues examined in this thesis across different organisational functions such as for example marketing or research and development. Finally, since the current study focused on HRM practices for subsidiary managers and professionals efforts at generalising the findings to other employee groups, for instance shop floor employees, should be cautious.

As previously discussed, the choice to use subsidiary HR managers and general managers as respondents for the questionnaire could have an impact on which HRM practices were in fact measured, the intended or actual practices. Responses from additional managers and professionals could have been useful to ascertain that the practices measured were those that had actually been implemented. However, in practice this was not possible in the current study for reasons associated with time, costs, and language skills of both the interviewers and the potential respondents. For similar reasons the current study does not include a headquarters perspective, which in turn could have been conducive for the discussion regarding integration mechanisms. Furthermore, despite being considered the two most knowledgeable people in the subsidiary regarding the questions posed in our questionnaire, another relevant issue is

how well-acquainted subsidiary HR managers and general managers actually are with the HRM practices of local Chinese companies and parent MNC practices.

There are also some limitations regarding the questionnaires used in the study and the interview situation itself. Papers 1 and 6 in the thesis consisted of dual data sets. Whilst this was clearly an advantage in that it allowed the inclusion of a time aspect in the papers, it is important to keep in mind that these studies are not pure longitudinal studies since neither the 1996 and 2006 data sets, nor the data sets from 1999 and 2006 consisted of the same sample subsidiaries. In addition, the 1999 sample consisted of both European and U.S. companies. The interview language also constitutes a limitation of this study. Whereas some respondents could speak their mother tongue during the process of going through the questionnaire as well as in the subsequent discussions, this possibility should ideally have been offered to all respondents.

The limitations of this study open up ideas for future research. Regarding social networks and the development of HRM capabilities there are various issues that deserve to be further explored. Although the current study to some extent touched on all the three dimensions of social capital suggested by Nahapiet and Ghoshal (1998), the primary focus was on the structural dimension, i.e. on determining the networks and contacts that the managers in the study had. Although the structural dimension could be widened in future studies to include more external contacts like for instance consultants, an increased focus on the relational and cognitive dimensions of the networks would be most interesting. For instance, it is feasible that it is more difficult for HR managers to network internally within the MNC than it is for general managers due to reasons related to for instance language, culture, stereotyping, and identity. Thus, one idea would be to explore through what processes this kind of networking can be encouraged.

Another interesting question concerns the influence of the characteristics and nature of networks, in terms of things like quality, formality, and if it a network is primarily social or professional, on the extent to which network members/participants internalise ideas and practices that they are exposed to through their involvement in different networks. In regard to the formality of networks future research could examine the extent to which there exist parallel formal and informal networks; for example, in the current study some managers mentioned that they used the formal networks to get

contacts that were then upheld informally. Thus, who participates in which kinds of networks and what kinds of knowledge flow in the networks?

Furthermore, this study indicated a clear division between the networks of HR and general managers in terms of who they communicated with both internally and externally. Although previous research has found support for actor similarity in networks it would nonetheless be interesting to further explore the role of the cognitive dimension of social capital in this regard. For instance, what similarities; shared language, gender, culture and/or a common frame of reference are more or less relevant for shaping internal and external networks in different contexts? Another related question is how the characteristics and background of the people involved in different networks affects their networking skills and how different contacts are initiated.

Yet, another issue that deserves to be further explored is if certain kinds of networking behaviours are typical for certain institutional contexts. Are MNCs for instance more likely to engage in external networks with other MNCs like the ones described in paper 5 in institutional and cultural contexts more distant to that of the parent MNC home country than in more similar host-country contexts. Are there certain characteristics in the host-country environment that make this kind of networking behaviour more likely? And can any company participate in any network or is participation determined by certain company charactersitics, such as size and/or nationality? Future research could also benefit from including the views of different members of the various networks, such as headquarters or other subsidiaries in the region. In addition, whilst it fell outside the scope of this thesis, future studies could focus on networks from the perspective of local Chinese companies, what they perceive that they learn from networking with MNCs and how it affects what they do. This could also serve to shed light on the suggested ongoing deinstitutionalisation of HRM in the Chinese context. Finally, the effectiveness of different networks is an issue that fell outside the scope of this thesis but that deserves to be explored in future studies.

Future research could benefit by further developing certain constructs in the questionnaire used for this study. For instance the questions regarding resemblance of subsidiary HRM practices with local and parent MNC practices could include resemblance with the practices of other MNCs in the local environment since this

emerged as a relevant matter in the current study. Another issue worth including in future operationalisations is the extent to which a practice is not only implemented but also internalised.

The current study also raises some ideas for future research on integration mechanisms. Since it seems that integration mechanisms are often used as complements to each other, future studies could examine the relationship between different mechanisms in greater detail, for instance how expatriate presence in the subsidiary and different characteristics of the expatriates themselves affects the use of other integration mechanisms. Another issue that deserves more research attention is how the use of different integration mechanisms can influence the extent to which an HRM practice is not only implemented but also internalised. For instance are there situations or contexts in which certain mechanisms are considered more legitimate and does this affect how a practice is or is not integrated? Future work could also examine is if there exist differences in effectiveness between different mechanisms.

Regarding the role of the HR department the findings in paper 6 should be viewed tentatively and further research is needed to determine the effect of size, for instance including the effect of outsourcing. HR departments that have outsourced various administrative tasks may be smaller but may also be better prepared to play a strategic role than larger HR departments that struggle with all kinds of HR tasks. Finally, whilst we in paper 1 found evidence of convergence of subsidiary practices with local company as well as parent company practices, future research could benefit from taking take this one step further and examining who is the actual source for convergence on a more global level. For instance, Pudelko and Harzing (2007) discuss the existence of a dominance effect by which they mean that a subsidiary's HRM practices are shaped not by the subsidiary host-country or the MNC home-country, but rather by the country that sets the standard for what is considered to be 'global best practices'. They suggest that there is a convergence around American practices and that these are generally considered 'best practices'. This would be an additional topic worthy of future research.

### 5.3. Managerial implications

The findings of this thesis have some implications for managerial practice, both from a subsidiary and a headquarters perspective. The findings highlight the importance of involvement in both internal and external social networks for the development of subsidiary HRM capabilities. In the Chinese context it appears that at least for the time being MNCs are particularly valuable sources of knowledge regarding HRM. Thus, subsidiary managers should be encouraged to initiate and maintain contact with their counterparts in other MNCs. Through their social expatriate networks which at least partly coincide with their professional networks, general managers are, at least to some extent, likely to be exposed to the activities of other MNCs. For many subsidiary HR managers, however, it is important to get the chance to be involved in these kinds of networks since it is their primary way of accessing knowledge about other MNCs' HRM activities in China. This is perhaps most crucial for HR managers who do not have previous experience of working in another MNC, in which case they are unlikely to have existing contacts in other MNCs. Although networks with local Chinese companies were not currently very common or very valued, the possibility is something to keep in mind since this may well change over time as the changes in the Chinese business environment continue.

Internally it seemed that the global networks of general managers were better developed than those of the HR managers possibly due to the fact that the general managers had more prior international work experience. Thus, more effort could be focused on helping HR managers establish and maintain networks within the MNC. While this appeared to be under way in some of the sample MNCs in this study, continuous efforts are needed to improve the internal structures that enhance networking between HR managers from different subsidiaries and with corporate HR.

Regarding integration mechanisms the current study suggests that MNC headquarters needs to pay attention to the mix of mechanisms used to integrate various HRM practices. It is crucial for MNCs to find the appropriate mix of mechanisms depending on the practice in question and the reasons for why it is being integrated in a certain subsidiary. Furthermore, it is apparent that different contextual factors in the subsidiary

and the subsidiary-headquarters relationship affect why certain mechanisms are or are not used.

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## APPENDIX 1 RESEARCH QUESTIONNAIRE FROM 2006

# QUESTIONNAIRE ON HRM IN FOREIGN-OWNED SUBSIDIARIES IN CHINA

### The parent corporation (Pres./HR Manager)

| | |
|---|---|
| 1. Size (annual turnover) | |
| 2. Nationality | |
| 3. Number of countries in which the corporation is active | |

### Corporate operations in China (Pres./HR Manager)

| | |
|---|---|
| 4. When did the MNC establish its first subsidiary/joint venture in China? | |
| 5. How many JVs/subsidiaries does the MNC have in China today? | |
| 6. Does the MNC have an Asia/Pacific regional headquarters? | Yes ☐ No ☐ |
| 7. Does the MNC have a China corporate center/headquarters? | Yes ☐ No ☐ |
| 8. Does the MNC have an HR/Personnel department and/or HR manager for China? | Yes ☐ No ☐ |

### HR department (HR Manager/Pres.)

| | |
|---|---|
| 9. How many people work specifically within the HR department? | |
| 10. On average how many days of formal training in HR management/development per year has the most senior HR manager received since he/she joined the company? | |
| 11. From where was the most senior HR manager recruited? (please tick one) | A Chinese company or school/university ☐<br>Another Chinese unit of the MNC ☐<br>Another MNC ☐ Abroad ☐<br>Other, what? _____ |

### The subsidiary (Pres./HR Manager)

| | |
|---|---|
| 12. a) How many years has the subsidiary been in the MNC?<br>b) Is the subsidiary a joint venture? | _____ years<br>Yes ☐ No ☐ |
| 13. How did the subsidiary start its operations? (please tick one) | By continuing on-going operations undertaken by a local company (possibly partner) ☐<br>By *partly* continuing its operations (e.g. taking over some employees) ☐<br>By starting from scratch? ☐ |
| 14. Was the subsidiary acquired? | Yes ☐ No ☐ |

| | |
|---|---|
| 15. Subsidiary functions (tick all that apply): | Manufacturing □ Sales □ Service □ R&D □ |
| 16. Which of the following items best describes the sector in which the subsidiary primarily operates? | Transportation equipment □ Industrial equipment □<br>Chemicals and pharmaceuticals □<br>Wood, wood products, pulp & paper □<br>Precision instruments □ Electrical equipment □<br>Automobiles □ Food, tobacco, & textiles □<br>Metal, rubber, stone, glass & leather □<br>Other, what? □ _____ |
| 17. Indicate the extent to which you agree with the following statement: The subsidiary's operations are: | labor intensive 1 2 3 4 5 6 7 capital intensive |
| 18. Subsidiary sales (in million Euros) | |
| 19. Percentage of the subsidiary's sales sold within the corporation: | approximately _____ % |
| 20. Percentage of the subsidiary's purchases bought within the corporation: | approximately _____ % |
| 21. Total number of employees: | |
| 22. Number of foreign employees: | |

## CHARACTERISTICS OF THE HRM PRACTICES (HR Manager and Pres.)

Below are some questions concerning the extent to which HRM practices concerning local managers and professionals in your unit /subsidiary are similar to those in **i)** the home country operations of the parent corporation (MNC) and **ii)** the operations of local (domestic) companies in China.

| **Recruitment of new managers and professionals** | very similar | | | | | | very different |
|---|---|---|---|---|---|---|---|
| Compared with the MNC's home country operations the methods used are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared with local companies the methods used are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared to MNC's home country operations the criteria for selection are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared to local companies the criteria for selection are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| **Management and professional training** | very similar | | | | | | very different |
|---|---|---|---|---|---|---|---|
| Compared to MNC's home country operations the amount of training is | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared to local companies the amount of training is | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared to MNC's home country operations the content of training is | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared to local companies the content of training is | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| **Financial bonuses for managers and professionals** | very similar | | | | | | very different |
|---|---|---|---|---|---|---|---|
| Compared with the MNC's home country operations the relative importance of | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | |
|---|---|
| financial bonuses (as percentage of total compensation) is | |
| Compared with local companies the relative importance is | 1 2 3 4 5 6 7 |
| Compared with the MNC's home country operations the criteria used to determine financial bonuses are | 1 2 3 4 5 6 7 |
| Compared with local companies the criteria used are | 1 2 3 4 5 6 7 |

| **Appraisal of managers & professionals performance** | very similar | | | | | | very different |
|---|---|---|---|---|---|---|---|
| Compared with the MNC's home country operations the methods used are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared with local companies the methods used are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared with the MNC's home country operations the criteria used are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Compared with local companies the criteria used are | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**EXTERNAL CONTEXT & HRM (Pres. and HR Manager)**

Indicate the extent to which you agree with the following statements:

| Subsidiary managers and professionals have engaged in discussions on HRM issues in: | do not agree | | | | | | entirely agree |
|---|---|---|---|---|---|---|---|
| Business-related meetings with colleagues in other MNCs in China | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Business-related meetings with colleagues in local Chinese firms | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Personal contact with managers and professionals from other MNCs in China | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Personal contact with managers and professionals from local Chinese firms | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Professional organizations/ committees with colleagues in other MNCs in China | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Professional organizations/ committees with colleagues from local Chinese firms | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**THE HR DEPARTMENT (Pres. and HR Manager)**

| How would you rate the current capabilities of the HR department in: | poor | | | | excellent |
|---|---|---|---|---|---|
| Developing, implementing and maintaining appropriate recruitment and selection processes? | 1 | 2 | 3 | 4 | 5 |
| Developing, implementing and maintaining appropriate training and development programs? | 1 | 2 | 3 | 4 | 5 |
| Developing, implementing and maintaining an appropriate compensation | 1 | 2 | 3 | 4 | 5 |

| | |
|---|---|
| systems? | |
| Developing, implementing and maintaining appropriate performance appraisal systems? | 1 2 3 4 5 |

| Rate the extent to which: | not at all very much |
|---|---|
| The HR department is involved in the strategic planning process | 1 2 3 4 5 |
| The HR department is responsible for developing HRM initiatives that contribute to achieving current and future business goals | 1 2 3 4 5 |
| HR managers are viewed by those outside the HR function as partners in the management of business and agents for change | 1 2 3 4 5 |
| Your subsidiary makes an explicit effort to align business and HRM strategies | 1 2 3 4 5 |
| There is an ongoing evaluation of the alignment of current HRM practices and the business strategies of the subsidiary | 1 2 3 4 5 |

**MNC INTERNAL CONTEXT & HRM (HR Manager)**

Indicate the extent to which you agree with the following statements concerning the subsidiary's **recruitment and selection** practices:

| | do not agree entirely agree |
|---|---|
| Recruitment and selection policies and practices are discussed in meetings with colleagues from headquarters | 1 2 3 4 5 6 7 |
| Recruitment and selection policies and practices are discussed in personal contacts with colleagues from headquarters | 1 2 3 4 5 6 7 |
| Recruitment and selection policies and practices are discussed in committees and/or task forces that include headquarters and subsidiary representatives | 1 2 3 4 5 6 7 |
| Monitoring is used to ensure that internationally common rules, policies, and procedures concerning recruitment and selection are not violated | 1 2 3 4 5 6 7 |
| There exist fairly well-specified worldwide standard operating procedures and common manuals concerning recruitment and selection | 1 2 3 4 5 6 7 |
| There exist fairly well-specified worldwide common rules and policies concerning recruitment and selection | 1 2 3 4 5 6 7 |
| There exist databases to share information internationally concerning recruitment and selection (e.g. via the company intranet) | 1 2 3 4 5 6 7 |
| Information concerning recruitment and selection is exchanged through worldwide electronic communications systems (e.g. email, Lotus Notes, online forums) | 1 2 3 4 5 6 7 |
| Information concerning recruitment and selection exists on sophisticated worldwide integrated information systems (e.g. ERP systems such as SAP) | 1 2 3 4 5 6 7 |
| The methods used to recruit local managers and professionals are decided by headquarters rather than by the subsidiary | 1 2 3 4 5 6 7 |
| The criteria for selection are decided by headquarters rather than by the subsidiary | 1 2 3 4 5 6 7 |
| The tools used for selection (e.g. letters of recommendation, tests of various kinds) are decided by headquarters rather than by the subsidiary | 1 2 3 4 5 6 7 |

Indicate the extent to which you agree with the following statements concerning the subsidiary's **training and development** practices:

| | do not agree | | | | | | entirely agree |
|---|---|---|---|---|---|---|---|
| Training and development policies and practices are discussed in meetings with colleagues from headquarters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Training and development policies and practices are discussed in personal contacts with colleagues from headquarters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Training and development policies and practices are discussed in committees and/or task forces that include headquarters and subsidiary representatives | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Monitoring is used to ensure that internationally common rules, policies, and procedures concerning training and development are not violated | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist fairly well-specified worldwide standard operating procedures and common manuals concerning training and development | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist fairly well-specified worldwide common rules and policies concerning training and development | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist databases to share information internationally concerning training and development (e.g. via the company intranet) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Information concerning training and development is exchanged through worldwide electronic communications systems (e.g. email, Lotus Notes, online forums) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Information concerning training and development exists on sophisticated worldwide integrated information systems (e.g. ERP systems such as SAP) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The amount of training that managers and professionals receive is decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The content of training that managers and professionals receive is decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The delivery of training that managers and professionals receive is decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Indicate the extent to which you agree with the following statements concerning the subsidiary's **financial compensation** practices:

| | do not agree | | | | | | entirely agree |
|---|---|---|---|---|---|---|---|
| Financial compensation policies and practices are discussed in meetings with colleagues from headquarters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Financial compensation policies and practices are discussed in personal contacts with colleagues from headquarters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Financial compensation policies and practices are discussed in committees and/or task forces that include headquarters and subsidiary representatives | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Monitoring is used to ensure that internationally common rules, policies, and procedures concerning financial compensation are not violated | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist fairly well-specified worldwide standard operating procedures and common manuals concerning financial compensation | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist fairly well-specified worldwide common rules and policies concerning financial compensation | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist databases to share information internationally concerning financial compensation (e.g. via the company intranet) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Information concerning financial compensation is exchanged through worldwide electronic communications systems (e.g. email, Lotus Notes, online forums) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Information concerning financial compensation exists on sophisticated worldwide | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| integrated information systems (e.g. ERP systems such as SAP) | | | | | | | |
| The importance of financial bonuses (as a percentage of total compensation) is decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The criteria used to determine financial bonuses are decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The process through which financial bonuses for a certain time period are established is decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

Indicate the extent to which you agree with the following statements concerning the subsidiary's **employee appraisal** practices:

| | do not agree | | | | | | entirely agree |
|---|---|---|---|---|---|---|---|
| Employee appraisal policies and practices are discussed in meetings with colleagues from headquarters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Employee appraisal policies and practices are discussed in personal contacts with colleagues from headquarters | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Employee appraisal policies and practices are discussed in committees and/or task forces that include headquarters and subsidiary representatives | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Monitoring is used to ensure that internationally common rules, policies, and procedures concerning employee appraisal are not violated | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist fairly well-specified worldwide standard operating procedures and common manuals concerning employee appraisal | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist fairly well-specified worldwide common rules and policies concerning employee appraisal | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| There exist databases to share information internationally concerning employee appraisal (e.g. via the company intranet) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Information concerning employee appraisal is exchanged through worldwide electronic communications systems (e.g. email, Lotus Notes, online forums) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Information concerning employee appraisal exists on sophisticated worldwide integrated information systems (e.g. ERP systems such as SAP) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The methods for employee appraisal are decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The criteria for employee appraisal are decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| The outcomes (or application) of employee appraisals are decided by headquarters rather than by the subsidiary | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

**COMPENSATION LEVEL (HR manager)**

Indicate the level of total compensation (base+bonus+benefits) for your unit compared to the median/the 50$^{th}$ percentile for total compensation for other foreign-owned companies.

0 10 20 30 40 **50** 60 70 80 90 100

**ECONOMIC PERFORMANCE (Pres.)**

| How would you rate the performance of the subsidiary in: | poor | | | | excellent |
|---|---|---|---|---|---|
| Meeting the parent corporation's (MNC) profitability expectations | 1 | 2 | 3 | 4 | 5 |

| | | | | | |
|---|---|---|---|---|---|
| Profitability relative to other foreign-owned firms in your industry in China | 1 | 2 | 3 | 4 | 5 |
| Meeting the parent corporation's (MNC) overall performance expectations | 1 | 2 | 3 | 4 | 5 |
| Overall performance relative to other foreign firms in your industry in China | 1 | 2 | 3 | 4 | 5 |

**EMPLOYEE TURNOVER (Pres.)**

| | |
|---|---|
| What proportion of the managers have left the company voluntarily during the last 12 months? | |
| What proportion of the professionals have left the company voluntarily during the last 12 months? | |

## APPENDIX 2 PAPERS

Paper 1: Björkman, I. Smale, A., Sumelius, J., Suutari, V. & Lu, Y. (2008) Changes in institutional context and MNC operations in China: subsidiary HRM practices in 1996 versus 2006. *International Business Review*, 17(2): 146-158.

Paper 2: Smale, A., Björkman, I., Sumelius, J. & Suutari, V. HRM Integration mechanisms in MNCs: European subsidiaries in China. (Submitted to *Human Resource Management*)

Paper 3: Smale, A., Björkman, I. & Sumelius, J. Antecedents of HRM integration mechanism usage in MNC subsidiaries in China. (Submitted to *Journal of World Business*)

Paper 4: Sumelius, J., Björkman, I. & Smale, A. (2008) The influence of internal and external social networks on HRM capabilities in MNC subsidiaries in China. *International Journal of Human Resource Management*, 19(12): 2294-2310.

Paper 5: Sumelius, J. (2009) Social networks and subsidiary HRM capabilities: The case of Nordic MNC subsidiaries in China. *Personnel Review,* 38(4): 380-397.

Paper 6: Sumelius, J. The strategic role of the HR department in MNC subsidiaries in China between 1999 and 2006. (A previous version of the paper was presented at the international HRM Global 2008 conference in Turku, Finland)

**Paper 1**

**Björkman, I. Smale, A., Sumelius, J., Suutari, V. & Lu, Y.**

# Changes in institutional context and MNC operations in China: subsidiary HRM practices in 1996 versus 2006

Available online at www.sciencedirect.com
ScienceDirect
International Business Review 17 (2008) 146–158
INTERNATIONAL BUSINESS REVIEW
www.elsevier.com/locate/ibusrev

# Changes in institutional context and MNC operations in China: Subsidiary HRM practices in 1996 versus 2006

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Received 6 October 2006; received in revised form 16 February 2007; accepted 19 February 2007

**Abstract**

This study investigated the changes taking place in HRM practices found in European-owned units in China between 1996 and 2006 in conjunction with the transformation of the context in which they are operating. Our study presents clear evidence for the convergence of HRM found in local Chinese firms with those of European MNC units in China. The results also point to a convergence within European MNCs since the HRM practices in units located in China have become significantly more similar to those of their parent companies.
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*Keywords:* China; HRM transfer; Institutional change; MNC subsidiaries

## 1. Introduction

The People's Republic of China has changed dramatically since the late 1970s when it began to allow direct investments by foreign corporations into the country. The level of foreign direct investments began to increase rapidly after 1992 and China stands today as one of the world's largest recipient of direct investments from abroad. Concomitantly with the influx of new units owned by multinational corporations (MNCs), the context within which these companies operate has changed significantly. However, although several observers have pointed to significant shifts in the Chinese business context (e.g., Child & Tse, 2001), few in-depth analyses have been conducted on the behavioral changes that have taken place regarding MNC operations in China over time. In this paper we examine the changes that have occurred between 1996 and 2006[1] in the Human Resource Management (HRM) practices of European-owned units in China.

A central question in research on MNCs is the extent to which foreign subsidiary operations resemble those of the parent organization and/or the degree to which they are similar to those of local firms (Rosenzweig &

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[1]The data was collected between January 1996 and February 1997, and between November 2005 and September 2006, respectively. In the text we refer to 1996 and 2006 as the (main) years of data collection.

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doi:10.1016/j.ibusrev.2008.02.001

Singh, 1991). Foreign subsidiaries are subject to dual pressures to conform not only to the rules and norms of the local environment in which they are operating, but also to parent company expectations in the pursuit of MNC-internal consistency (Westney, 1993). HRM scholars studying MNCs within this integration-responsiveness framework (Prahalad & Doz, 1987) have typically examined subsidiary HRM practices in terms of their degree of 'global integration' or 'MNC standardization' and/or analyzed the 'local responsiveness' or 'local adaptation' of these practices, although it has also been stressed that an MNC may blend global standardization with local responsiveness (Hannon, Huang, & Jaw, 1995; Taylor, Beechler, & Napier, 1996). While a number of studies has been published on HRM practices in MNC subsidiaries in general (e.g., Ferner, Almond, & Colling, 2005; Hannon et al., 1995; Myloni, Harzing, & Mirza, 2004; Rosenzweig & Nohria, 1994), and more specifically on Western companies' HRM in China (e.g., Björkman & Lu, 2001; Braun & Warner, 2002; Chen & Wilson, 2003; Cooke, 2004a; Farley, Hoenig, & Yang, 2004; Goodall & Warner, 1998), no in-depth, large-scale research seems to have been carried out to date on how subsidiary HRM practices have changed over time in conjunction with changes in the context of their operations. The present study aspires to address this gap in the literature, thereby also contributing to the on-going convergence–divergence debate in management studies in general and HRM in particular (e.g., Rowley, Benson, & Warner, 2004; Tung, 1995; Zhu & Warner, 2000).

In this paper we investigate the degree to which subsidiary HRM practices resemble those of (i) local firms and (ii) their parent organization. An initial study in 1996 of 57 European units in China was replicated in 2006, this time covering 87 European-owned units. Similar to other studies on international HRM (e.g., Hannon et al., 1995), respondents in both studies provided data on aspects of the following central HRM practices: recruitment and selection, training, financial compensation, and performance appraisal. In this way, the research design not only facilitates an examination of changes in the general resemblance of MNC subsidiary HRM practices to those of local firms and the parent company, but also enables the analysis of these differences across a range of HRM practices. The focus of the study is on HRM practices applicable to host-country managers and professionals.

The next section presents the theoretical framework of the study. Firstly, institutional theory is presented, followed by a discussion on how this can be used to analyze HRM practices in foreign-owned subsidiaries. Secondly, we examine changes in the institutional context in China over time and hypothesize how these changes have impacted on the resemblance of subsidiary practices with those of local firms. Thirdly, we review the literature on integration and the transfer of HRM practices in MNCs and discuss factors that are likely to have triggered changes in the degree of similarity in HRM practices between MNC subsidiary and parent organization. Subsequent sections go on to describe the methods used, present the study's results and discuss the findings. We conclude by outlining the limitations of the study and by pointing to some interesting avenues for future research.

## 2. Institutional theory and HRM practices in MNC subsidiaries

Recognizing the impact of social, institutional and cultural factors on organizations, institutional theorists point to the influence that socially constructed beliefs, rules and norms exert over organizations. A common point of departure for most 'new institutionalists' (DiMaggio & Powell, 1991) is that organizations are under pressure to adapt and be consistent with their institutional environment. They are assumed to search for legitimacy and recognition, which they do by adopting structures and practices defined as and/or taken for granted as appropriate in their environment (Meyer & Rowan, 1977). Hence, isomorphism occurs between organizations in the same context.

DiMaggio and Powell (1983) suggested that isomorphism is produced in three major ways: coercive isomorphism, where a powerful constituency (e.g., the government) imposes certain patterns on the organization; mimetic isomorphism, where organizations in situations of uncertainty mimic organizations viewed as successful in their environment; and normative isomorphism, where professional organizations such as universities, consultancy firms and professional interest organizations act as disseminators of appropriate organizational patterns which are then adopted by organizations under the influence of these professional organizations. More recently, Scott (2001) has proposed that there are three institutional 'pillars': regulatory (cf. coercive), cognitive (cf. mimetic) and normative.

Institutional theory has been used to shed light on a wide variety of organizational phenomena including the HRM practices in foreign subsidiaries. Foreign-owned subsidiaries can be conceptualized as being influenced both by institutional factors in the local environment and by international isomorphic processes, including pressures from the MNC parent company (Rosenzweig & Singh, 1991; Westney, 1993). In the local context, labor laws and regulations restrict the range of possible HRM practices, local managers have taken-for-granted views about good management practices, strong local professional norms may exist, and processes of institutionalization might take place among MNCs in the focal country. Hence, cognitive and normative institutional processes enfolding in the local context may play important roles in explaining the patterns of HRM practices found in situations of uncertainty (DiMaggio & Powell, 1983; Levitt & March, 1988). At the same time, there may be coercive pressures from the MNC parent organization and taken for granted practices may be diffused through organizational actors to foreign subsidiaries (Westney, 1993).

In empirical studies, subsidiary managers have usually been asked to estimate the extent to which the HRM practices resemble those of local firms and/or the MNC parent organization. Studies on foreign-owned subsidiaries in the United States (Rosenzweig & Nohria, 1994) and Taiwan (Hannon et al., 1995) showed that the HRM practices of MNCs overall were more localized than globally standardized, indicating stronger local than corporate institutional pressures. On the other hand, a study of Chinese-Western joint ventures revealed that the HRM practices were more similar to those of the MNC parent company than to those of local firms (Björkman & Lu, 2001), perhaps in part because the study focused on professionals and managers rather than rank-and-file employees. These studies have examined the relationship between possible explanatory factors consistent with the institutional perspective and subsidiary HRM practices. The results indicate that, among others, the subsidiary mode of establishment (greenfield investment rather than acquisition) and the number of expatriates in the subsidiary—both indicating cognitive and/or normative institutional factors—are positively associated with a high degree of MNC standardization (Björkman & Lu, 2001; Rosenzweig & Nohria, 1994). However, no large-scale study seems to have examined how subsidiary HRM practices change over time in conjunction with changes in their institutional environment—the issue that we focus on in this study.

## 3. Changes in the institutional context in China and MNC subsidiary HRM practices

MNC subsidiaries face legal, cultural and social demands on their operations from the institutional environment in which they operate (Rosenzweig & Singh, 1991). In reference to its *regulatory* (Kostova, 1999; Scott, 2001) or *coercive* (DiMaggio & Powell, 1983) environment, which includes laws and rules that promote and restrict different behaviors, the Chinese regulatory context for HRM has undergone significant changes during the last 10–15 years. One of the main drivers behind the transition has been the move from a highly centralized allocation process to a more decentralized, market- and merit-based system (Warner, 1998). Although state intervention is still widespread in many facets of business, the Chinese approach to reforming the economy (see Child & Tse, 2001) has nevertheless afforded MNCs considerable flexibility in how they recruit, develop and remunerate staff. Indeed, the free labor market that has been emerging in China has already had significant implications for staffing practices (Zhu & Dowling, 2002). In addition, the Chinese personnel and labor bureaus, which in the 1980s and early 1990s tried to influence HRM practices in foreign-owned units in PRC, by the mid-1990s had begun to exert less influence (Child, 1994); a trend that appears to have continued during the last decade.

Referring to the widely held social knowledge and beliefs about HRM, the *cognitive* institutional environment in PRC has been characterized by a historical absence of the Western HRM concept (Child, 1994; Zhu & Warner, 2000). Traditionally, the personnel system was characterized by government-determined hiring quotas, egalitarian compensation practices, a narrow definition of employee training, and the 'iron rice bowl' policy of life-time employment (Child, 1994; Warner, 1993). By the mid-1990s, some parts of this system had been phased out while others remained (Warner, 1997), and by the beginning of the 21st century the HRM practices of leading MNCs like Nokia and Motorola were often hailed by the Chinese media as models to be followed by domestic firms (Cooke, 2004a). Although empirical evidence suggests that the HR function in Chinese organizations is failing to meet the performance expectations of line managers (Mitsuhashi, Park, Wright, & Chua, 2000) and still tends to be strongly associated with administrative work and services (Chow, 2004), the longitudinal picture depicts a growing role for the HR function alongside a discontinuation of most

traditional Chinese personnel practices in favor of more Western-style HRM practices (Braun & Warner, 2002; Zhu, Cooper, De Cieri, & Dowling, 2005). Contributing to the increased perceived importance of the HR function and the growing professionalism of HRM has been the improved academic education and ongoing corporate investment in the development of HR managers (Cooke, 2004b). Processes of globalization of the HR profession may also have had at least some homogenizing effect on HRM in different countries (cf. Tung, 1995). Representative of these developments have been the HRM practices in Chinese-owned MNCs, some of which have been shown to be progressively employing a mix of traditional Chinese personnel management and Western HRM practices (e.g., Shen, 2004; Shen & Edwards, 2004; Zhang, 2003).

Representing the values, beliefs and norms about human nature, the *normative* institutional context for HRM in PRC has received considerable research attention, most notably through the application of cross-cultural perspectives. For example, Huo and Von Glinow (1995) argue that there are a number of Chinese cultural characteristics that render any integration of Western HRM practices problematic unless they are 'culturally rational'. These include the importance of saving face, respect for authority and non-direct verbal style. Other features mentioned in the literature are harmonious peer–subordinate relationships in performance appraisals (Easterby-Smith, Malina, & Lu, 1995), familism and *guanxi* in staffing practices (Chow, 2004) and increasingly a "cash mentality" in compensation preferences (Chiu, Luk, & Tang, 2002). For these reasons, Ding and Warner (2001) argue that foreign subsidiaries are unlikely to exclusively adopt their parent HRM practices in the near future, but rather will utilize 'hybrid' HRM systems that exhibit 'Chinese characteristics.'

However, 'cultural' arguments for local HRM practice differentiation have been criticized for over-essentializing culture in a way that views it as static rather than "a shifting and changeable repertoire with diverse strands" (Gamble, 2003, p. 384; see also Fang, 2006) and in providing weak explanatory power regarding the specific origins of both global and local effects (Edwards & Kuruvilla, 2005). When viewed in this way, societal values and behavioral norms held by Chinese citizens can be challenged and to some extent adapted when they are encouraged to practice Western style HRM over a longer period of time. Further, in an era of globalization of industry, information and people, cultural changes at the societal and other levels of analysis are likely to take place (Fang, 2006; Leung, Bhagat, Buchan, Erez, & Gibson, 2005). Indeed, a recent study of managerial values systems related to business ideology showed that the values held by mainland Chinese managers had converged with those of Hong Kong and US managers from 1979 to 2001 (Ralston et al., 2006). Shifts towards more individualistic values, particularly amongst the younger generations of Chinese citizens are likely to have rendered arguments about the 'cultural misfit' (see e.g., Gerhart & Fang, 2005) of Western HRM practices less convincing.

In summary, it appears that the personnel management model that was prevalent in Chinese firms in the 1980s and which partly remained in the 1990s, has now been almost entirely de-institutionalized. Although China is still in a transformative phase characterized by incomplete institutional reforms (Pei, 2006), local Chinese and foreign-owned units nevertheless face fewer regulatory restrictions on the HRM practices they can implement. Furthermore, shifts in cultural values may have rendered employees more receptive towards Western-style HRM practices and cognitive institutional pressures seem to have led to Chinese firms increasingly looking towards leading foreign corporations as their HRM role models. Therefore, we hypothesize that:

**Hypothesis 1.** The HRM practices of European-owned units in China will more closely resemble those of local companies in 2006 than they did in 1996.

## 4. MNC institutional pressures and subsidiary HRM practices

Similar to institutional forces at play in the host country environment, MNC headquarters can be conceptualized as exhorting coercive/regulatory, mimetic/cognitive and normative pressures on foreign subsidiaries. Thus, foreign subsidiaries are under pressure to adopt HRM practices similar to those of the MNC parent organization (Rosenzweig & Nohria, 1994). Since the present study examines the changes taking place in the HRM practices of European-owned units in China between 1996 and 2006, the discussion now

turns to factors that may have contributed to changes in the degree to which the HRM practices resemble those of the MNC parent company.

Firstly, as argued by Ghoshal and Bartlett (1996), having established and consolidated the competitive position of foreign units, MNCs typically turn to the building of integration mechanisms between them for the purposes of effective sharing and coordination. In facilitating this tighter integration, MNCs have been shown to use multiple mechanisms, in combination and at varying strengths to integrate different business functions (Kim, Park, & Prescott, 2003). Furthermore, Ghoshal and Gratton (2002) illustrate how MNCs are facilitating this tighter integration through the increased deployment of technology-enabled, horizontal mechanisms in conjunction with the more traditional, vertically- and control-based mechanisms. In relation to HRM, case studies of MNCs have revealed that such technological possibilities have recently led to the development and diffusion of global, e-enabled HRM processes (Sparrow, Brewster, & Harris, 2004). Indeed, several MNCs have implemented corporate-wide enterprise resource planning (ERP) systems that also contain HRM modules or portals (e.g., Ruta, 2005; Tansley, Newell, & Williams, 2001). One of the implications of these new e-HR(M) systems is that while many foreign units once had much more autonomy in terms of their HRM processes and practices, now "there is much stronger focus on cross-country and cross-business border implementation issues" (Sparrow et al., 2004, p. 71). Units located in China are also likely to have been influenced by these trends towards tighter integration in general, and more specifically by the technology-driven integration of global HRM processes and practices.

Secondly, it appears that both MNC-internal and MNC-external labor markets have become more transparent and developed. The implementation of corporate talent management systems in MNCs (Bryan, Joyce, & Weiss, 2006; Evans, Pucik, & Barsoux, 2002) requires the global integration and at least some degree of standardization of people management practices across geographically dispersed units (Sparrow et al., 2004). There are also indications that MNCs are focusing more on developing global employer brands (Martin, Beaumont, Doig, & Pate, 2005; Sparrow, 2006). These developments that place significant emphasis on shared corporate practices are likely to add to the pressures on foreign subsidiaries to implement HRM practices similar to those of the MNC parent organization.

Thirdly, the actual impact of MNC parent organization pressures for conformity is likely to be partly contingent on the strength of counter-veiling host-country institutional forces (Kostova, 1999; Kostova & Roth, 2002; Rosenzweig & Singh, 1991). As argued above, since the 1990s the historical Chinese personnel management model has been increasingly de-institutionalized. Currently, there are few indications of strong Chinese host-country forces that would counterbalance MNC headquarters' pressures on overseas units to adopt practices resembling those of the home-country organization.

Thus, there are several reasons to expect the HRM practices in Western-owned units in China in 2006 to more closely resemble those of their parent organization than was the case in 1996. The following hypothesis will be tested:

**Hypothesis 2.** The HRM practices of European-owned units in China will more closely resemble those of their parent company organization in their home country in 2006 than they did in 1996.

In this study we will test hypotheses concerning the changes in HRM practices as a whole in European-owned subsidiaries. However, the results of separate analyzes concerning individual HRM practices will also be reported and discussed.

## 5. Methods

### *5.1. Data collection and sample*

Two datasets form the empirical basis of the present study. The first dataset was collected between January 1996 and February 1997 on a sample of 57 European-owned units mostly located in Beijing, Shanghai or the Guangdong province. The data was collected from either a top manager or a human resource/personnel manager. Data collection for the second dataset took place between November 2005 and September 2006 and consisted of 87 European-owned subsidiaries mostly located in Beijing and Shanghai. The subsidiaries represented a wide variety of industries, with no industry being dominant and with similar kinds of industries

represented in both samples. Four of the units were part of both datasets. Many of the units studied in 1996 had been divested, closed or merged with other MNC subsidiaries, thus rendering a longitudinal analysis of the 1996 sample impossible. Wherever possible, the 2006 data was collected from both the general manager and the most senior person responsible for HR in the focal unit (i.e., two responses per unit) leading to 63 units with dual responses and 24 units with single responses.

For both datasets, data collection began with compiling lists of foreign owned subsidiaries from national Chambers of Commerce and other foreign investment bodies. These lists were supplemented through the snowballing method and via the use of the authors' existing contacts. In most cases, subsidiary presidents/general managers were contacted at which point the project details were described and confidentiality was assured. Contacts were then followed up by telephone to schedule interviews. For the 1996 dataset, a total of 104 European-owned units were contacted giving a response rate of 55%. In 2006, the total number contacted was 311 giving a response rate of 29%, indicating that access to MNC units has become somewhat more difficult. Indeed, several respondents in 2006 commented on the significant number of requests to participate in research that they had received.

In both 1996 and 2006, the respondents filled in a standardized questionnaires in the presence of one of the researchers. In most cases, semi-structured interviews were also carried out during the visit to the respondents' units. Both the questionnaire and the interviews were in English and were pre-tested in prior pilot studies. The present paper is based on the questionnaire data.

### 5.2. Measures

Respondents in 1996 and 2006 were invited to answer the same questions regarding the degree to which the focal unit's HRM practices resembled those of the parent organization: 'compared to the MNC's home country operations, the [subsidiary's HRM practices] are very similar (1) … very different (7)'. For purposes of clarity, the scales were reversed in the results and analysis. The same question was asked relating to the degree of resemblance with the practices of local companies. The questions are similar to those used in previous studies (Hannon et al., 1995; Rosenzweig & Nohria, 1994) and were asked in connection with the following HRM practices:

- The methods and (2) criteria used when recruiting new local managers and professionals;
- The amount and (4) the content of management and professional training;
- (5) The methods and (6) criteria used to determine performance-based pay for managers and professionals; and
- (7) The methods and (8) criteria used to appraise managers' and professionals' performance.

In cases where there were dual responses in the 2006 data ($n = 63$), average scores for local or parent HRM resemblance were calculated. This was justified since paired-sample $t$-tests between the HR and top manager respondents revealed that their mean responses did not differ significantly across the items. To test the hypotheses, the overall measures of a subsidiary's resemblance to parent or local HRM were calculated as the average of the respondents' answers on the different HRM practices. The reliability values (Cronbach alpha) for the multiple-item constructs were 0.84 and 0.79 for parent HRM resemblance for the 1996 and 2006 data respectively, and 0.87 and 0.87 for local HRM resemblance (see Table 2).

Four control variables were included in the study. The first was *subsidiary size*, measured as the number of subsidiary employees. We transformed the number of employees into a four-point scale as described in Table 1. Second, since *subsidiary ownership* has been shown to affect subsidiary HRM practices (Björkman & Lu, 2001; Ding, Goodall, & Warner, 2000; Hannon et al., 1995) the study included a control variable of whether the subsidiary was a joint venture or not. It was coded 0 = 'no' and 1 = 'yes'. Following Makino and Beamish (1998), we used 80% equity share on the part of the MNC as a cut-off point between wholly-owned units and joint ventures. As can be seen in Table 2, while a clear majority of the units in the 1996–97 sample were joint ventures, the proportion was reversed in 2005–06. This shift is in accordance with the general change in ownership of foreign-owned units in China. Third, based on previous research (Björkman & Lu, 2001; Rosenzweig & Nohria, 1994) we decided to include the *number of expatriates* as a control variable. Due

Table 1
Sample characteristics of 1996 and 2006 data

| $N = 144$ | Category | 1996 ($N = 57$) (%) | 2006 ($N = 87$) (%) |
|---|---|---|---|
| Unit size (no. of employees) | <100 | 41.1 | 36.8 |
| | 100<500 | 42.9 | 39.1 |
| | 500<1000 | 5.4 | 4.6 |
| | >1000 | 10.7 | 19.5 |
| Number of expatriates | 0–1 | 28.1 | 21.8 |
| | 2–4 | 43.9 | 32.2 |
| | 5–10 | 19.3 | 24.1 |
| | >11 | 8.8 | 21.8 |
| Mode of establishment | Continuing ongoing operations | 29.8 | 18.4 |
| | *Partly* continuing ongoing operations | 26.3 | 11.5 |
| | Starting from scratch | 43.9 | 70.1 |
| Joint venture | Yes | 82.5 | 19.5 |
| | No | 17.5 | 80.5 |

*Note*: 1996: $N = 56$–$57$.

Table 2
Descriptive statistics on MNC subsidiary resemblance to local and parent HRM practices (1 = very different, …, 7 = very similar)

| Items | Mean (S.D.) 1996 ($N = 57$) | Mean (S.D.) 2006 ($N = 87$) |
|---|---|---|
| All practices | | |
| Resemblance to parent in home country (1996: $\alpha = 0.84$, 2006: $\alpha = 0.79$) | *3.91 (1.25)* | 4.79 (0.85) |
| Resemblance to local companies (1996: $\alpha = 0.87$, 2006: $\alpha = 0.87$) | *3.21 (1.24)* | 3.76 (0.93) |
| Recruitment and selection | | |
| 1. Criteria: compared with the MNC home country operations | 4.04 (1.88) | 4.97 (1.22) |
| 2. Methods: compared with the MNC home country operations | 3.58 (1.76) | 4.37 (1.33) |
| 3. Criteria: compared with local companies | 3.64 (1.65) | 3.81 (1.29) |
| 4. Methods: compared with local companies | 3.29 (1.76) | 4.13 (1.39) |
| Training | | |
| 5. Content: compared with the MNC home country operations | 3.79 (1.77) | 4.68 (1.34) |
| 6. Amount: compared with the MNC home country operations | 3.47 (1.76) | 4.36 (1.33) |
| 7. Content: compared with local companies | 2.91 (1.65) | 3.56 (1.20) |
| 8. Amount: compared with local companies | 2.98 (1.67) | 3.38 (1.14) |
| Financial compensation | | |
| 9. Criteria: compared with the MNC home country operations | 4.05 (2.05) | 5.05 (1.41) |
| 10. Importance: compared with the MNC home country operations | 3.47 (2.04) | 4.09 (1.46) |
| 11. Criteria: compared with local companies | 3.24 (1.82) | 3.78 (1.28) |
| 12. Importance: compared with local companies | 3.55 (1.71) | 4.23 (1.24) |
| Performance appraisal | | |
| 13. Criteria: compared with the MNC home country operations | 4.62 (1.73) | 5.37 (1.23) |
| 14. Methods: compared with the MNC home country operations | 4.31 (1.83) | 5.40 (1.23) |
| 15. Criteria: compared with local companies | 2.82 (1.51) | 3.69 (1.24) |
| 16. Methods: compared with local companies | 3.19 (1.64) | 3.72 (1.32) |

*Note*: 1996: $N = 49$–$57$; 2006: $N = 85$–$87$.

to the extremely uneven distribution of expatriates in the dataset (varying from 0 to 200), we transformed the number of expatriates into a four-point scale as described in Table 1. Lastly, the *mode of establishment* was controlled for in the analysis as this factor has been found to be significantly associated with MNC subsidiary HRM practices (Björkman & Lu, 2001; Rosenzweig & Nohria, 1994). This was measured by asking

respondents to state whether the subsidiary had started its operations by '(i) continuing ongoing operations undertaken by a local partner, (ii) partly continuing its operations (e.g., taking over some employees), and (iii) starting from scratch'.

## 6. Results

Table 2 presents descriptive statistics on the resemblance of subsidiary HRM practices with local firms and parent company practices for 1996 and 2006. The statistics are presented per item (aspect) for each HRM practice—recruitment and selection, training, financial compensation, and performance appraisal—as well as on an aggregate level for resemblance with local firms and the parent company.

The overall picture that can be interpreted from the data in Table 2 is clear—subsidiary HRM practices between 1996 and 2006 have become more similar to the practices of both local companies as well as to those of the parent company. The mean values for the two aggregate measures, 'resemblance to local companies' and 'resemblance to parent' 2006, as well as all the values of all the individual items from 2006 are higher than the corresponding values for 1996.

A correlation matrix of the variables in this study is presented in Table 3. We examined the correlation matrices to identify possible collinearity between the variables in our model since the inclusion of dummy variables can create a situation of high multicollinearity (Hair, Anderson, Tatham, & Black, 1998). There were no correlations of 0.90 or above in our models to suggest a serious collinearity problem, a conclusion that is supported by the low values for variance inflation factors (VIFs).

The hypotheses were tested using OLS multiple regression analysis. This enables an assessment of the magnitude and direction (positive or negative) of our hypotheses and control variables. The statistical program used was SPSS 12.0. Table 4 presents the results of the regression analyses on the aggregate level for resemblance of subsidiary HRM practices with those of local companies and the parent company respectively. Both models were highly significant, namely resemblance to local companies ($F = 5.477$, $p < 0.001$) and resemblance to parent company in home country ($F = 13.712$, $p < 0.001$).

The results showed strong support for Hypothesis 1 according to which the HRM practices of European-owned units in China will more closely resemble those of local companies in 2006 than they did in 1996 (std. $\beta = 0.415$, $p < 0.001$). Among the control variables, establishment mode and number of expatriates in the subsidiary were significantly and negatively associated with the resemblance to local practices. Regarding establishment mode, this can be interpreted as the HRM practices in subsidiaries that have been started from scratch are likely to resemble local practices to a lesser extent than subsidiaries that have continued or partly continued the ongoing operations of a local partner. The results also indicate that a larger number of expatriates in the subsidiary reduces the resemblance of subsidiary HRM practices to local practices.

Hypothesis 2, which suggested that the HRM practices of European-owned units in China will more closely resemble those of their parent company organizations in their home countries in 2006 than they did in 1996, was also supported (std. $\beta = 0.205$, $p < 0.05$). The control variables establishment mode and number of expatriates in the subsidiary were significant and positively related to the resemblance to parent company

Table 3
Means, standard deviations and Pearson correlations

| Variables | Means | S.D. | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|---|
| 1. Year (1996 = 0, 2006 = 1) | 0.60 | 0.49 | | | | | | |
| 2. Joint venture (no = 0, yes = 1) | 0.44 | 0.50 | −0.619*** | | | | | |
| 3. Mode of establishment | 2.37 | 0.83 | 0.222** | −0.346*** | | | | |
| 4. Size (no. of employees) | 1.97 | 1.04 | 0.100 | 0.121 | −0.164* | | | |
| 5. Number of expatriates | 2.31 | 1.02 | 0.179* | −0.124 | 0.078 | 0.506*** | | |
| 6. Resemblance to parent company | 4.47 | 1.11 | 0.387*** | −0.398*** | 0.349*** | −0.007 | 0.353*** | |
| 7. Resemblance to local companies | 3.55 | 1.10 | 0.249*** | −0.073 | −0.125 | −0.058 | −0.164* | −0.248*** |

All two-tailed tests; $^{+}p < 0.10$, $^{*}p < 0.05$, $^{**}p < 0.01$, $^{***}p < 0.001$.
*Note*: $N = 142$–144.

Table 4
Regressions on the resemblance of subsidiary HRM practices with local companies and parent operations

| Variables | Model 1: Local resemblance | | | Model 2: Parent resemblance | | |
|---|---|---|---|---|---|---|
| | Std. $\beta$ | S.E. | $t$-Statistic | Std. $\beta$ | S.E. | $t$-Statistic |
| Year (1996 = 0, 2006 = 1) | 0.415 | 0.230 | 3.989*** | 0.205 | 0.205 | 2.253* |
| Joint venture (no = 0, yes = 1) | 0.083 | 0.233 | 0.767 | −0.125 | 0.210 | −1.327 |
| Mode of establishment | −0.204 | 0.110 | −2.391* | 0.212 | 0.101 | 2.796** |
| Size (no. of employees) | −0.055 | 0.100 | −0.566 | −0.163 | 0.091 | −1.901+ |
| Number of expatriates | −0.186 | 0.099 | −1.990* | 0.367 | 0.090 | 4.392*** |
| $R^2$ | 0.168 | | | 0.334 | | |
| Adjusted $R^2$ | 0.137 | | | 0.309 | | |
| $F$ | 5.477*** | | | 13.712*** | | |

Significance (two-tailed): $^{+}p<.10$, $^{*}p<0.05$, $^{**}p<0.01$, $^{***}p<0.001$.

Table 5
Regressions on the resemblance of subsidiary HRM practices with local companies and parent operations by item

| Variables | Std. $\beta$ | S.E. | $t$-Statistic | $R^2$ | Adjusted $R^2$ | $F$ |
|---|---|---|---|---|---|---|
| Local resemblance | | | | | | |
| Selection: criteria | 0.204 | 0.324 | 1.826+ | 0.048 | 0.012 | 1.350 |
| Recruitment: methods | 0.472 | 0.335 | 4.559*** | 0.188 | 0.158 | 6.283*** |
| Training: content | 0.404 | 0.311 | 3.766*** | 0.123 | 0.090 | 3.759** |
| Training: amount | 0.178 | 0.309 | 1.610 | 0.061 | 0.026 | 1.742 |
| Compensation: criteria | 0.281 | 0.337 | 2.605** | 0.111 | 0.077 | 3.296** |
| Compensation: importance | 0.374 | 0.319 | 3.531*** | 0.145 | 0.113 | 4.482*** |
| Appraisal: criteria | 0.384 | 0.305 | 3.630*** | 0.140 | 0.106 | 4.167** |
| Appraisal: methods | 0.246 | 0.333 | 2.226* | 0.067 | 0.030 | 1.815 |
| Parent resemblance | | | | | | |
| Selection: criteria | 0.196 | 0.331 | 0.196+ | 0.141 | 0.109 | 4.483*** |
| Recruitment: methods | 0.174 | 0.320 | 1.724+ | 0.179 | 0.149 | 5.962*** |
| Training: content | 0.250 | 0.319 | 2.526* | 0.209 | 0.180 | 7.223*** |
| Training: amount | 0.170 | 0.323 | 1.680+ | 0.178 | 0.148 | 5.919*** |
| Compensation: criteria | 0.089 | 0.356 | 0.890 | 0.196 | 0.167 | 6.698*** |
| Compensation: importance | −0.054 | 0.359 | −0.535 | 0.175 | 0.144 | 5.763*** |
| Appraisal: criteria | 0.116 | 0.314 | 1.112 | 0.120 | 0.086 | 3.590** |
| Appraisal: methods | 0.198 | 0.319 | 1.983* | 0.196 | 0.165 | 6.430*** |

*Note*: Std. $\beta$, S.E. and $t$-values only given for variable: 'year 1996, 2006'.
Significance (two-tailed): $^{+}p<.10$, $^{*}p<0.05$, $^{**}p<0.01$, $^{***}p<0.001$.

practices. Subsidiaries that have been started from scratch are more likely to have HRM practices that resemble parent company practices than subsidiaries that have continued or partly continued the ongoing operations of a local partner. A larger number of expatriates in the subsidiary is also likely to increase the resemblance of subsidiary HRM practices to those of the parent company. Size, as measured by the number of employees in the subsidiary, was significantly and negatively associated with resemblance to parent company practices.

Regression analyses were also carried out for the individual items (aspects) of recruitment and selection, training, financial compensation, and performance appraisal with regard to local resemblance and parent company resemblance. These results are presented in Table 5. For the purpose of simplicity, the standardized beta values, standard errors, and $t$-statistics are only presented for the variable 'year 1996, 2006', not for the control variables. The significance values of the models are also included in Table 5. The results are discussed in Section 7.

## 7. Discussion

This study investigated the changes in HRM practices found in European-owned units in China between 1996 and 2006. Using two unique questionnaire-based datasets compiled through structured personal interviews with top managers and HR managers, and controlling for factors identified in previous research to be related with the HRM practices in MNC subsidiaries, we found that significant changes had taken place in the HRM practices of European-owned units over the last decade.

First, our study presents evidence for convergence of the HRM found in local Chinese firms with those of European MNCs in China. The question of convergence has been discussed for a long time in the international HRM literature (e.g., Ferner & Quantanilla, 1998), and has also been much debated in the context of China (e.g., Warner, 1998; Zhu & Warner, 2000). This research appears to be the first large-scale study conducted in China that provides unambiguous evidence of a convergence of the HRM practices in MNC units located in the country and the practices found in local firms.

Although our results indicate the overall trend towards convergence of HRM practices in Chinese firms and MNC units is highly significant, separate analyzes of different aspects of individual HRM practices revealed a picture that was somewhat more complex. The clearest evidence of convergence seems to be in the area of compensation (where both criteria and importance of compensation showed significant changes)—the HRM practice which has also remained the most similar to local firms. Perhaps partly due to compensation being among the most codified, transparent and therefore easiest to copy of all the HRM practices examined in this research (cf. Kogut & Zander, 1992), subsidiary knowledge of local compensation practices was typically very high, not least due to the regular compensation surveys carried out by recruitment consultancy firms and the well known propensity for Chinese employees to share salary information openly with others. The results further indicate that the most significant shift has been in terms of methods of recruitment, which again represents an HRM practice that is relatively easy to imitate. An alternative explanation for the significant convergence in compensation practices and recruitment methods is the heightened war for talent precipitated by the increasingly open and competitive Chinese labor market for professionals and managers. Indeed, the reported difficulties in finding and retaining managers with the requisite business and linguistic skills has made it seemingly imperative for MNC subsidiaries to follow closely and adopt the visible recruitment and compensation practices of companies with whom they are competing for scarce talent.

Secondly, the results also point to a convergence within European MNCs since the HRM practices in units located in China have become significantly more similar to those of their parent companies. However, more detailed analyzes show that the changes are fairly unevenly distributed across HRM practices with training showing the clearest statistically significant shift towards increased parent resemblance. There is also some evidence of a similar trend for performance appraisal and recruitment. One possible explanation for the convergence in training is that the education and professional training of Chinese managers and professionals have improved considerably over the last decade. This, together with a significant increase in the number of people who have already gained considerable professional experience both in foreign-owned and local Chinese corporations as well as a growing number of Chinese citizens returning from studies and careers overseas, have made the training needs in the Chinese units of MNCs more similar to those in other parts of the corporation. Additionally, it has been argued that investments in training and development are important ways for MNCs to retain well performing employees in the competitive Chinese labor market (e.g., Björkman & Lu, 1999), thus setting the stage for either transferring advanced management and professional training programs from MNC headquarters or inviting subsidiary employees to take part in global programs.

To be noted is thus that the subsidiary HRM practices during 1996–2006 had become more similar to both those of local firms and those of their parent organizations. These findings are important since much of the discussion of institutional duality (Kostova & Roth, 2002) has centered on the potential conflict between isomorphic pressures from the host country environment and from the MNC headquarters. Our results indicate that host country and MNC isomorphic pressures may not always be in conflict. Fine grained comparative studies are needed to augment our understanding of the processes of interaction between emerging host country, MNC-internal as well as global institutionalization processes of HRM practices (Kostova & Roth, 2002), and the conditions under which the pressures are in conflict or mutually supportive.

Rather, HRM practices in MNCs have arguably contributed to the process of changes in the beliefs held by Chinese business executives about what constitutes appropriate and efficient HRM practices.

Our research provides evidence that significant changes have occurred in the HRM practices in foreign-owned units in China, but more work is clearly needed on the performance implications of a strategy to locally adapt or globally standardize HRM practices. As suggested by Björkman (2006), there exist a number of potential drawbacks to standardizing HRM practices across foreign subsidiaries (and, conversely, of extreme local responsiveness). Firstly, global standardization may negatively affect the possibility of being responsive to the local institutional environment (cf. Kostova & Roth, 2002), and firms that are better than their competitors in handling institutional pressures may attain a competitive advantage (Oliver, 1997). Secondly, labor market considerations may favor different HRM solutions in different countries. Thirdly, a blind standardization of practices across MNC units may lead to a lack of fit between the characteristics of the focal subsidiary's operations and its HRM system, making it more difficult to achieve a high degree of strategy-HRM. Fourth, there may be a backlash against 'headquarters imperialism' if subsidiaries are forced to adopt fully standardized MNC practices (Martin & Beaumont, 1998). Fifth, if there are strong pressures to standardize HRM throughout the MNC this may stifle local experimentation, thereby reducing the capacity of the MNC as a whole to develop new innovative HRM practices.

The interpretations presented in this paper are of course based on findings from within one national context: the People's Republic of China. Generalizations from these findings should therefore be cautionary and take into consideration the unique attributes of the Chinese institutional environment and how they have changed during the time period examined in this research. We encourage international HRM scholars to examine the changes that have, and are likely over the next several years, to take place in other countries in transition, such as India, Russia and the post-socialist countries in Central and Eastern Europe. Only comparative empirical research can help illuminate whether similar changes also are happening in these other countries.

The present study focused on only one set of practices—HRM. Similar work on other business functions/practices, such as different aspects of marketing, finance and accounting, and research and development would therefore also be of interest. Comparative analyses of different functions would help shed light on the extent to which the changes in MNC subsidiary practices observed in the present study are specific to the HRM function or whether we can observe similar transformations in other areas of MNC operations in China.

We further call on scholars to examine in more depth the micro-processes at firm level which lead to greater resemblance and 'hybrid' HRM practices with elements both from the foreign parent organization and from the local environment (see Ferner et al., 2005). The findings of the present study as well as previous work (Rosenzweig & Nohria, 1994) indicate that the use of expatriates is significantly related with the degree of resemblance in HRM practices both with those of local firms and those of the MNC parent company. Nonetheless, in-depth case analyses would be instrumental in augmenting our understanding of the range of mechanisms that is likely to be at play as local and MNC practices are 'translated' into the focal subsidiary.

Like any research, the study is also subject to certain limitations. Firstly, although the measure of parent and local HRM resemblance is based on pre-validated constructs found in earlier studies (e.g., Hannon et al., 1995; Rosenzweig & Nohria, 1994), the measure uses rather simplistic perceptional data. It could thus be argued that more objective measures of actual HRM practices, including responses from parent company representatives, would represent a more validated measure of resemblance. Further, as the HRM practices differ across different Chinese firms, the respondents' answers will at least to some extent reflect their choice of reference group. A second limitation, and related to the first, is the use of single responses in some cases. Whilst an effort was made to collect dual responses per unit in the 2006 data, it was not always possible. Thirdly, the present study analyzed HRM practices for professionals and managers, and the results are not automatically generalizable to work in MNC production units in China (cf. Cooke, 2004a). Fourth, additional research is needed to ascertain whether similar changes have taken place in the Chinese units of MNCs from other countries, such as the US and Japan. Despite these limitations, which also point to opportunities for other scholars to go beyond our work, this study provides evidence of convergence in HRM practices in the context of the institutional changes that have taken place in China during the last decade.

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**Paper 2**

**Smale, A., Björkman, I., Sumelius, J. & Suutari, V.**

**HRM Integration mechanisms in MNCs: European subsidiaries in China.**

# HRM INTEGRATION MECHANISMS IN MNCS: EUROPEAN SUBSIDIARIES IN CHINA

**Abstract**

*The paper develops hypotheses concerning the extent to which four foreign subsidiary HRM practices – financial compensation, performance appraisal, training and development, and recruitment and selection – are integrated in the multinational corporation through different mechanisms. The hypotheses are tested on a sample of 76 European-owned subsidiaries in China. Argued to be partly an outcome of the inherent differences in integration aims (control, transfer and adaptation) associated with individual HRM practices, the findings reveal systematic differences in mechanism usage across the four practices.*

## Introduction

The integration of HRM practices not only allows multinational corporations (MNCs) to diffuse practices found to be successful to foreign subsidiaries where they may contribute to enhanced corporate performance, but also facilitates the control and coordination of overseas units. During recent years, a number of studies have examined the degree to which subsidiary HRM practices resemble those of parent and host-country organizations; an indication of the transfer of practices from the MNC parent company (e.g. Rosenzweig & Nohria, 1994; Hannon, Huang, & Jaw, 1995; Björkman & Lu, 2001). This body of research has identified a range of host-country, parent-country, MNC, and subsidiary characteristics associated with patterns of HRM in foreign subsidiaries. However, this literature speaks more to the relationships between home- and host-country characteristics and subsidiary HRM practices than to the mechanisms through which these practices are integrated within the firm. The limited empirical work that has been carried out on the means (or mechanisms) of HRM integration in MNCs has typically adopted a control and coordination perspective, analyzing subsidiary HRM practices through in-depth case studies (e.g. Edwards, Ferner, & Sisson, 1996; Martin & Beaumont, 1999; Ferner et al., 2004; Ferner, Almond, & Colling, 2005). Other studies have also been carried out, but on specific integration mechanisms such as internal benchmarking (Martin & Beaumont, 1998) and expatriation (Rosenzweig & Nohria, 1994; Hetrick, 2002) rather than examining a broader range of mechanisms.

Studies on the transfer of HRM in MNCs have gradually come to recognize the pertinence of differentiating between the individual HRM practices that comprise the HR function. For instance, scholars have argued that HRM practices differ according to their levels of institutional embeddedness in local and parent systems (Rosenzweig and Nohria, 1994) or due to their technical versus social-cultural components (Lu & Björkman, 1997), empirically demonstrating variances in patterns of HRM across individual HRM practices. However, at present we have only a fragmented picture of how individual HRM practices are integrated in foreign subsidiaries and no effort seems to have been made to examine patterns of integration mechanism usage at the practice level of analysis.

In this study we adopt Kim, Park, & Prescott's (2003) classification of global integration modes, according to which people-, formalization-, information- and centralization-based mechanisms are used to integrate functions across foreign units. We examine the global integration of four HRM practices, namely financial compensation, performance appraisal, training and development, and recruitment and selection, which are common to earlier empirical work of this kind (e.g. Hannon et al., 1995). The paper develops hypotheses concerning the extent to which these four HRM practices are integrated through different integration mechanisms at varying levels of intensity. We test the hypotheses on a sample of 76 European-owned subsidiaries located in China. This research seeks to contribute to the field of HRM in MNCs in the following two main ways. Firstly, by investigating a range of HRM integration mechanisms this study contributes to our incomplete understanding of how HRM practices are integrated in MNC subsidiaries. The study answers calls for research to incorporate more fine-grained distinctions of HRM integration mechanisms as well as explanations for their differential use (Gomez & Sanchez, 2005). Secondly, the paper seeks to build theory regarding the relationships between individual HRM practices and the use of integration mechanisms, an issue which has received little or no research attention to date.

The following section reviews the literature on the global integration of foreign subsidiaries in MNCs and presents our arguments for global integration possessing three complementary aims. The subsequent section builds on this by discussing the relative importance of the three global integration aims for each of the four HRM practices based on our analysis of the empirical work that has studied the characteristics of HRM practices found in MNC subsidiaries. Discussion then turns to the relative capabilities of the four integration mechanisms in achieving the three global integration aims, from which a set of hypotheses are developed. After describing the study's methodology the results of the quantitative analysis

are reported. The paper concludes with a discussion of the study's findings, its limitations and its managerial implications.

**Global Integration of Foreign Subsidiaries**

The dual tensions that exist between responsiveness to local conditions on the one hand and organizational integration on the other are well documented in the international management literature (e.g. Prahalad & Doz, 1987). However, while the original formulation of the integration-responsiveness framework (Doz, Bartlett, & Prahalad, 1981) stressed the tradeoffs that MNCs have to make, scholars have since argued that firms can and should strive to pursue global integration while at the same time trying to address local needs (Bartlett & Ghoshal, 1989). It has been suggested that recent trends such as technological change, rapid growth and globalization have been responsible for the increasing shift in MNC management attention towards the integration response to the global integration–local responsiveness dilemma (Ghoshal & Gratton, 2002). As a result, what global integration has come to mean and how it is facilitated has also shifted.

Indeed, definitions of global integration have moved on from the 'centralized management of geographically dispersed activities on an ongoing basis' (Prahalad & Doz, 1987: 14) to include 'the organizational structure and management processes by which various activities scattered across the world are made interdependent' (Lasserre, 2003: 13). Common to most definitions of global integration in MNCs is the view that integration comprises both a formal, centralized element and a less formal, lateral element. Global integration relies on two key processes, control and coordination, where control refers to the use of power and authority, and coordination to the provision of appropriate linkages between overseas units (Cray, 1984).

However, we argue that the above definitions neither capture sufficiently the multiple objectives of MNC integration efforts nor the way in which global integration takes place within the firm. In this regard, global integration is defined here to possess three complementary aims – (i) the control of foreign subsidiary operations, (ii) the efficient transfer of practices to foreign units, and (iii) the appropriate adaptation of activities which requires both an understanding of parent practices and local conditions.

In terms of *control*, and in line with Prahalad and Doz's (1987) definition above, the objective of integration is to regulate activities within the organisation so that they adhere to established expectations (Child, 1973). Typically referring to the centralization of decision-making, the key elements of control in achieving integration are therefore the direction of behaviour and the use of existing, hierarchically-based, power relations between the parties involved (Harzing, 1999; O'Donnell, 2000).

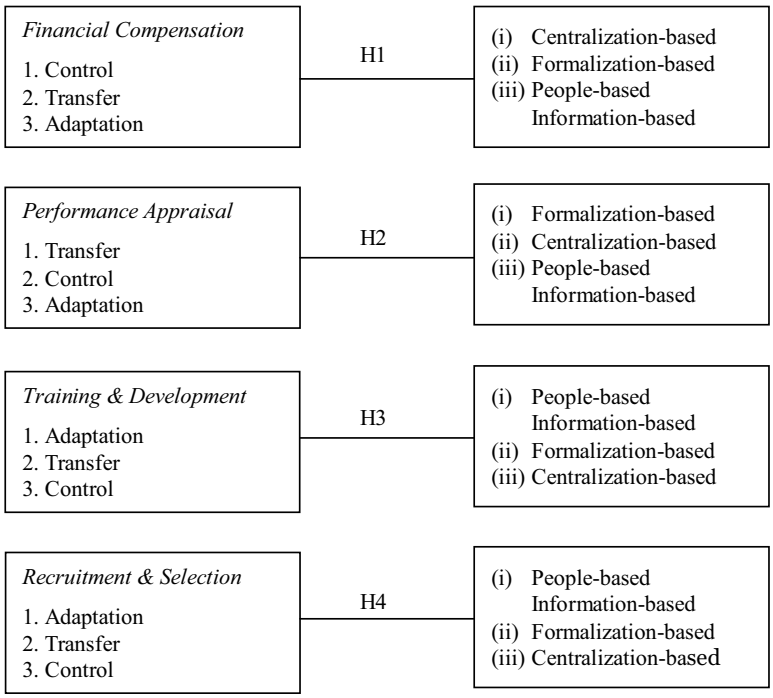
To the extent that global integration requires activities in foreign units to be centrally managed and/or made interdependent, those activities need to be transferred to the units in question. The efficient *transfer* of practices, therefore, is referred to here as the transfer of firm-specific practices for the purposes of achieving consistency and alignment amongst foreign affiliates, whether it is the general corporate culture or specific operational procedures. Since the transfer and integration of dispersed knowledge and practices is argued to be a basis for competitive advantage in firms (Grant, 1996; Szulanski, 1996), efficient transfers of this kind represent an important objective of global integration endeavors.

Lastly, the third aim of making appropriate *adaptations* to activities makes the important distinction that global integration does not imply standardization. Indeed, in the same way that global strategy is argued not to mean doing everything the same way everywhere (e.g. Kanter & Dretler, 1998), for global integration and the transfer of practices to be truly effective some degree of adaptation to account for local contextual differences is required in order to move beyond surface implementation towards deeper internalization (Kostova, 1999; Kostova & Roth, 2002). In specific reference to institutional theory, 'appropriate' adaptations to organizational practices do not denote a substantial shift away from global integration, but are intended to result in greater host legitimacy amongst regulatory, normative and cognitive institutions rendering the practice easier to comprehend and implement (Jensen & Szulanski, 2004). From a cultural perspective, this kind of congruence between management practices and local values may be associated with superior performance (Newman & Nollen, 1996).

These three objectives argued to be inherent in the global integration of foreign subsidiaries are now discussed in relation to the integration of four individual HRM practices and in relation to the various mechanisms through which integration can take place. The relationships presented in the ensuing discussion are illustrated with the diagram in Figure 1.

Below, we argue that the relative importance of the three global integration aims will differ across individual HRM practices. Subsequently, we discuss how the four integration mechanisms differ in their ability to achieve the three global integration objectives of control, transfer and adaptation. Based on this theoretical reasoning, hypotheses are formulated concerning the relative use of the four integration mechanisms to integrate the four HRM practices.

**Figure 1.** Theoretical model on HRM practices, global integration aims and integration mechanisms



**HRM Practices and Global Integration**

Empirical investigations into the mechanisms of HRM integration in MNCs have mostly been conducted using qualitative case study designs. These studies have contributed to our knowledge about how HRM is integrated in several ways. Firstly, it has been demonstrated how MNCs typically use a diverse array of direct and indirect mechanisms in combination and at varying strengths (Edwards, 1998; Tempel, 2001). Secondly, intra-MNC variance in the usage and emphasis placed on these mechanisms suggests that the uniqueness of parent-subsidiary relations requires HRM to be integrated in a number of different ways (Edwards et al., 1996; Wolf, 1997). Thirdly, the role of expatriates has been shown to be both pivotal and multifaceted in facilitating the integration of HRM, in particular in their role of two-way communication regarding parent expectations and host subsidiary concerns (Hetrick, 2002; Gamble, 2003). Lastly, the literature has drawn on power relations and the host-country perspective in explaining how HRM integration is in reality a highly contested and political process, characterized by the use of power resources on both sides (Martin & Beaumont, 1999; Ferner, 2000).

The important insights of previous research notwithstanding, studies on HRM integration mechanisms have lacked a systematic approach which incorporates both a broad range of integration mechanisms and the portfolio of individual HRM practices that comprise the HR function. Furthermore, attempts to explain the varied use of mechanisms to integrate HRM have been piecemeal and do not explore these relationships at the level of individual HRM practices. To this end, the literature on global HRM integration is reviewed next paving the way for hypothesized relationships on the use of global integration mechanisms across four different HRM practices: financial compensation, performance appraisal, training and development, and recruitment and selection.

*Financial compensation*

The principal reason why decisions concerning financial compensation and rewards for professionals and managers are likely to be made in a more centrally controlled manner is that by deciding how subsidiary employees and managers are compensated and rewarded, MNC headquarters can use output-based control to influence subsidiary operations (O'Donnell, 2000). It has also been argued that MNCs tend to centralize those HRM practices where much is at stake financially (Monks, 1996; Farley, Hoenig, Yang, 2004). In a recent case study of a US MNC operating in four European countries, Almond et al. (2005) show that strong

pressures for global integration of pay and performance management can also emerge due to the desire not only to create an internal labor market with international flexibility but also to monitor centrally the performance of different foreign units. For these reasons, MNCs are unlikely to relinquish centralized control despite institutional constraints at the local level.

Not only the criteria but also the methods for determining performance-based rewards, bonuses and share options have been shown to be at least partly transferred from MNC headquarters to foreign subsidiaries (Rosenzweig & Nohria, 1994; Tayeb, 1998). Research on the mutual interactions between HRM practices and societal culture has revealed that rewards and benefits are the practices least related to culture (Papalexandris & Panayotopoulou, 2004). Therefore, whilst the level of financial compensation for professionals and low- to mid-level managers is likely to be determined by local labor market rates, the criteria and methods for deciding on bonuses and other rewards require less local adaptation. Accordingly, we argue that the main aim of financial compensation integration in foreign subsidiaries is control, followed by transfer and adaptation.

*Performance Appraisal*

Studies on MNC units in Greece (Myloni, Harzing, & Mirza, 2004) and China (Björkman & Lu, 2001) have generally found that MNC performance appraisal systems are extensively transferred to their foreign subsidiaries. Furthermore, case study evidence on MNC units in the UK has revealed that common global policies on performance appraisal are particularly common, especially amongst senior staff (Ferner et al., 2004). Firstly, the transfer of a standardized performance appraisal system is one way in which MNC headquarters can try to ensure that appropriate goals are set and performance evaluated in foreign units, thus contributing to the strategic control of subsidiary operations. Secondly, MNCs make considerable investments in the development of common performance appraisal systems, including forms and procedures, which are designed to make the performance evaluation process transparent and fair. Accordingly, MNCs have been found to transfer consistent international performance appraisal policies across national boundaries despite the existence of cultural diversity (Lindholm, 1999; Shen, 2004).

For much the same reasons, and especially when a considerable amount of investment has been made in the development of a performance appraisal system, headquarters' influence and thus control over decisions concerning such systems is likely to be relatively high both

concerning the kind of system implemented in foreign subsidiaries and the objectives and performance criteria established for managers and professionals.

Although the lack of adaptation in behavioral indicators to fit the local culture has been cited as an area where MNCs could improve international performance appraisals (Braun & Warner, 2002), previous research nevertheless indicates that employee performance appraisal systems only to a relatively limited extent tend to be locally adapted to the host country environment (Björkman & Lu, 1999). Adaptation, therefore, would seem to be the least important objective behind its global integration when compared to control and transfer.

*Training and Development*

Training and development has been shown to be susceptible to local adaptation in foreign subsidiaries. Firstly, due to differences in educational systems, MNCs often have to confront heterogeneous training and development needs in the countries where they operate. Indeed, cross-national differences in the skills possessed by job applicants in the local labor market as well as in career traditions have been shown to be key drivers in the localization of training and development practices (Tregaskis, Heraty, & Morley, 2001). In China, for instance, it is only recently that local universities have started to offer advanced education in business and marketing (Alon & Lu, 2004), and in human resource management (Cooke, 2004). Secondly, and particular to economies in transition, the historical legacy of old regimes encourages MNCs to address specific skills shortages by investing in internal and locally adapted management training and development activities (Peiperl & Estrin, 1998; Benson & Zhu, 2002; Engelhard & Nägele, 2003). Thirdly, detailed analyses of MNC internal training and development programs have also revealed a perceived need to adapt how the training and development is delivered, for example in terms of how to activate participants effectively in classroom settings (Björkman & Lu, 1999).

The transfer of practices from the MNC parent organisation offers the advantage of the subsidiary being able to draw on investments in training programs developed elsewhere. Indeed, large MNCs often organize training programs locally and/or regionally for professionals and managers that to a large extent are based on programs designed centrally. In conjunction with local adaptation, Tregaskis et al. (2001) suggest that this is related to the greater transfer of systematic, ‘macro’ training frameworks (e.g. methods used to identify

training needs) and more local adaptation of 'micro' HR development practices (e.g. tools used to develop an employee's career).

Nevertheless, MNC headquarters are unlikely to be deeply engaged in detailed issues concerning what the specific training needs are and how developmental activities are carried out in foreign units (e.g. Tayeb, 1998), reflected in the reported high degree of decision-making autonomy country managers possess in this area (Conn & Yip, 1997). In other words, and similar to recruitment and selection (discussed below), compared with adaptation and transfer, headquarters control of training and development is likely to be a less important objective of global integration.

*Recruitment and Selection*

Previous research has found recruitment and selection to exhibit a high degree of localized adaptation. In a study on Chinese-Western joint ventures, recruitment and selection practices were found to be more similar to those of local Chinese firms than were training and development, performance appraisal and compensation (Björkman & Lu, 1999). There are several arguments why recruitment and selection tend to be adapted to the local context. Firstly, with the exception of very senior executives, external labor markets are predominately local in nature with a range of institutional factors influencing the supply of candidates. Secondly, cross-national research has shown a number of variations in recruitment and selection practices viewed as appropriate in light of differences in national culture and social behaviors (Namazie, 2003; Zhu & Dowling, 2002; Myloni et al., 2004).

The transfer of recruitment and selection practices from MNC headquarters does have certain advantages as it allows the firm to reap benefits from investments in the development of policies and procedures elsewhere. For instance, socio-psychological selection and assessment tests developed in other locations can be transferred across units, although cross-cultural validity problems have been noted in this respect (e.g. Braun & Warner, 2002). There are also examples of MNCs that have not only created common recruitment processes that are transferred to overseas locations but have also worked with specific recruitment companies across geographically dispersed units (Sparrow, Brewster, & Harris, 2004).

As related above, research on Western-owned units in China suggests that methods and criteria used to recruit and select new local managers and professionals are only to some extent similar to that of foreign parent organizations (Björkman & Lu, 1999). These findings

indicate that MNC headquarters are unlikely to be heavily involved in recruitment and selection decisions in foreign units with the exception of senior executive appointments (e.g. Tayeb, 1998). Accordingly, the integration objective of control can be regarded as least important for recruitment and selection.

**Mechanisms of Global Integration in MNCs**

The integration mechanisms that MNCs have at their disposal have been most widely discussed in the organizational control literature, which looks at the channels of influence organizations exploit to control and coordinate the activities of their subsidiaries (e.g. Child, 1973; Van de Ven, Delbecq, & Koenig, 1976). The corresponding research has produced several different classifications of control mechanisms from two-dimensional scales such as 'bureaucratic' versus 'cultural' (Baliga & Jaeger, 1984) to more detailed classifications that reflect the increasing pervasiveness and subtlety of such mechanisms (Martinez & Jarillo, 1989). In addition to the traditional and more direct exertion of control over foreign subsidiaries, MNCs are also shown to deploy less direct mechanisms that draw on bases of organizational power and associated 'channels of influence' such as corporate culture and 'coercive comparisons' (Ferner & Edwards, 1995), as well as on socialization and networks (Harzing, 1999). Ghoshal and Gratton (2002) discuss the use of horizontal forms of integration such as intellectual, social and emotional integration, whereby the role of managers is to connect the firm's knowledge repositories, to build social relationships and to foster a climate of shared identity. The use of these mechanisms, they suggest, has overtaken the use of the more hierarchical, vertical forms that are based on formal systems of planning and control.

Kim et al. (2003) provide a useful classification of four integration modes based on a review of the control and coordination literature. In their classification, centralization-based integration refers to situations where decision-making authority resides at MNC headquarters. Formalization-based integration relies on the standardization of work procedures, rules, policies, and manuals. Information-based modes of integration utilize international flows of information through systems such as databases, intranets and electronic data exchanges. Finally, people-based integration involves person-to-person interaction facilitated through meetings, teams, committees, the use of integrators, and the transfer of people across units.

These four integration mechanisms vary in their ability to achieve the three objectives of integration presented earlier. Taking each in turn, *centralization-based* integration mechanisms, which rely heavily on organizational hierarchy in the locus of decision-making about subsidiary activities, offer clear strengths in the pursuit of integration via control over and above the aims of transfer and adaptation. Indeed, centralization can be used not only to exercise behaviour control (e.g. making decisions on procedures), but also to exercise output control (e.g. centrally-derived performance criteria) and input control (e.g. central involvement in resourcing decisions). A high degree of centralization is likely to be associated with at least some degree of transfer of MNC headquarters practices to foreign affiliates as decision makers are likely to view their own practices and procedures as the most appropriate and efficient ways to operate, therefore requesting their use in foreign units. The lack of involvement in decision making on the part of the foreign subsidiary, by definition, makes the fulfillment of global integration's adaptation aim essentially unobtainable.

*Formalization-based* integration mechanisms are most effective in situations where activities can be codified into identifiable rules and procedures (Kim et al., 2003). In this sense, formalization is likely to perform best in integration through the efficient transfer of firm-specific practices that have been successfully applied at headquarters and/or other MNC units and therefore deemed appropriate for replication throughout the MNC. The integration objective next best suited to the formalization approach is argued to be that of control. Commonly referred to as a form of bureaucratic control (Child, 1973; Baliga & Jaeger, 1984), formalization is particularly well suited to the standardization of expected individual behaviors and organizational processes. Because of this emphasis on impersonal and typically top-down standardization the global integration objective of adaptation is least attainable through formalization-based mechanisms.

*Information-based* integration is effective when large volumes of information need to be distributed quickly (Kim et al., 2003). Significant in this regard has been the advances in information and communication technology (e.g. e-based applications, integrated IT platforms) and the associated discipline of knowledge management that has focused efforts on how complex and dispersed knowledge can be captured and disseminated throughout the firm (e.g. Hansen, Nohria, & Tierney, 1999; Voelpel, Dous, & Davenport, 2005). Despite the lack of interaction possibilities that information systems provide and the high costs associated with local customization, information-based integration is still best suited to achieving the aim of adaptation since foreign subsidiaries are likely to differ in the actual utilization of the

information to suit their specific needs. In other words, whilst centrally-derived information may be filtered through information systems in a standardized form, the ways in which this information is interpreted, adapted and applied locally lies predominantly at the discretion of foreign units. Nevertheless, the use of global information systems will necessitate some transfer of the information that is entered into the systems, which is also likely to lead to at least some degree of similarity in terms of how it is used. Hence, the objective of transfer is likely to be the second most achievable of the three objectives outlined above. To a lesser extent, information systems also allow MNCs to establish a certain degree of control over its overseas units. In addition to the bureaucratic form of control that information systems can and do play by establishing procedural standards regarding how the system is used (Clemmons & Simon, 2001), they also represent an opportunity for output control in their role of communicating goals and monitoring them through an array of management reporting functions.

*People-based* integration has been examined in several studies, but most extensively in connection with the use of expatriates. Indeed, the literature on expatriation has come to acknowledge the multiple purposes of international assignments including control, coordination and the transfer of knowledge (e.g. Torbiörn, 1994; Harzing, 2001; Minbaeva & Michailova, 2004). Regarding the integration of HRM specifically, Brewster, Sparrow, & Harris (2005) report of increased activity in global networking amongst international HR professionals. Through this form of integration, including personal contact with headquarters, the mutual interaction afforded by people-based integration provides foreign units with a platform to reflect upon, discuss and negotiate the appropriateness of headquarters' practices in local contexts. Adaptation is thus argued to be the key strength of this form of integration. To a lesser degree, people-based integration mechanisms also possess some of the key qualities necessary to enable efficient practice transfers. For instance, a knowledge-based view on expatriation emphasizes the benefits of expatriates over other forms of transfer when the knowledge being integrated in the MNC is tacit in nature and can only be revealed through its application (Bonache & Brewster, 2001). A social capital perspective, on the other hand, argues that the development of trust and shared vision through personal interactions will lead to the more extensive transfers of knowledge and resources (Tsai & Ghoshal, 1998). Studies have also shown that people-based mechanisms such as joint committees, site visits and joint training programs that facilitate the socialization of foreign units into the MNC have positive effects on the transfer of knowledge (Gupta & Govindarajan, 2000). Lastly, although

expatriates possess important qualities relating to direct personal and cultural control through the close supervision of subsidiary activities and the socialization of its members (Harzing, 1999), the other less direct, formal and hierarchical people-based mechanisms such as networking amongst HR professionals and HR Communities of Practice (Sparrow et al., 2004) are not so well-suited to achieving the integration aim of control compared to the aims of adaptation and transfer.

**Hypotheses**

In light of the above discussions regarding, firstly, the relative importance of the three global integration aims of control, transfer and adaptation for each of the four HRM practices, and secondly, the ability of the four integration mechanisms to achieve those three aims, the following hypotheses are advanced:

**Hypothesis 1**: In order, *financial compensation* will be integrated most extensively via (i) centralization-based mechanisms, then (ii) formalization-based mechanisms, then (iii) people-based and information-based mechanisms.

**Hypothesis 2**: In order, *performance appraisal* will be integrated most extensively via (i) formalization-based mechanisms, then (ii) centralization-based mechanisms, then (iii) people-based and information-based mechanisms.

**Hypothesis 3**: In order, *training and development* will be integrated most extensively via (i) people-based and information-based mechanisms, then (ii) formalization-based mechanisms, then (iii) centralization-based mechanisms.

**Hypothesis 4**: In order, *recruitment and selection* will be integrated most extensively via (i) people-based and information-based mechanisms, then (ii) formalization-based mechanisms, then (iii) centralization-based mechanisms.

**Method**

*Data Collection and Sample*

Data for the study were collected using a pre-tested questionnaire survey administered through fully structured interviews with the most senior persons responsible for HR in

Chinese subsidiaries of European MNCs. Structured interviews, held in English, were used both to accommodate the Chinese cultural preference for face-to-face relations and the build-up of trust (Harari & Beaty, 1990), as well as to avoid potential misunderstandings by clarifying the meaning of the questions if respondents were unsure (Fowler, 2002). Data collection for the study took place between November 2005 and October 2006. It began with compiling lists of foreign-owned subsidiaries in China from national Chambers of Commerce and other similar foreign investment bodies. These lists were supplemented via the use of the authors' existing contacts and through the snowballing method. In most cases, subsidiary presidents were contacted via email in which the project details were described and confidentiality was emphasized. Emails were followed up by telephone to schedule interviews. From a total sample of 311 subsidiaries contacted 87 agreed to participate. However, due to the absence of responses from the HR Manager in 11 of the units, the present study is based on the remaining usable sample of 76, giving a response rate of 24%. The interviews were carried out face-to-face except in two cases where telephone interviews were used. The majority of the units were located in or nearby the city districts of Beijing and Shanghai. Summary statistics of the sample are given in Table 1.

With regard to the biographical data of the respondents, 83% were female and 95% were host-country nationals. The title of the most senior person responsible for HR in the majority of units was HR Manager, but other titles included Administration Manager and Operations Manager. These respondents were chosen as they possessed sufficient knowledge of parent HRM, but more importantly because they were best placed to answer questions on the extent to which various HRM integration mechanisms were used in the subsidiary as opposed to only intended by MNC management.

**Table 1.** Subsidiary sample profile

| N = 76 | Category | % |
|---|---|---|
| Industry | Industrial equipment | 21.1 |
| | Chemicals & pharmaceuticals | 9.2 |
| | Wood, pulp and paper | 5.3 |
| | Precision instruments | 5.3 |
| | Electrical equipment | 14.5 |
| | Food, tobacco and textiles | 5.3 |
| | Metal, rubber, stone, glass & leather | 5.3 |
| | Others (e.g. services, information technology, telecommunications) | 34.0 |
| Size (no. employees) | <100 | 31.6 |
| | 100-500 | 43.4 |
| | 501-1000 | 5.3 |
| | >1000 | 19.7 |
| Length of establishment (in the MNC) | <2 years | 9.2 |
| | 2-5 years | 38.2 |
| | >5 years | 52.6 |
| Mode of establishment | Starting from scratch | 69.8 |
| | *Partly* continuing ongoing operations (e.g. some employees) | 11.8 |
| | Continuing ongoing operations | 18.4 |
| Joint venture | Yes | 19.7 |
| | No | 80.3 |
| Scope of operations | Manufacturing | 67.1 |
| | Sales | 75.0 |
| | Service | 71.1 |
| | Research & Development | 36.8 |

*Measures*

The measures for the different types of integration mechanisms were adapted from Kim et al.'s (2003) four global integration modes, namely people-based, formalization-based, information-based and centralization-based. However, since Kim et al.'s centralization mode used function-specific scales (e.g. for marketing and manufacturing), the centralization-based

integration mode in this study used a scale based on classifications of HRM practices found in earlier studies (Rosenzweig & Nohria, 1994; Hannon et al., 1995). In the interviews, respondents were asked to state their level of agreement concerning the use of the different mechanisms in integrating parent HRM practices into their subsidiary. Each mechanism type consisted of multiple-item, seven-point Likert scales ranging from 1 (do not agree) to 7 (entirely agree). These questions were asked in reference to each of the four individual HRM practices: financial compensation, performance appraisal, training and development, and recruitment and selection. The scales for the integration mechanisms across the HRM practices had reliability values of between 0.87 and 0.94, and between 0.75 and 0.93 within the individual HRM practices (see Table 2).

**Results**

Descriptive statistics on the mechanisms through which individual HRM practices are integrated are presented first (see Table 2). This is followed by the testing of the hypotheses, for which paired-sample t-tests were conducted.

Formalization was the most utilized means of global HRM integration. Particularly significant here is the use of HRM policies and rules, which exceeds any other single form of HRM integration in our study. Performance appraisal was most commonly integrated in this way. At the other end of the scale, centralization-based mechanisms (i.e. headquarters-based decision-making) represented the least commonly used means to integrate HRM overall. However, whilst this is true for recruitment and selection and training and development, centralization is used more to integrate financial compensation, representing the most common form of integration for that particular HRM practice. Information-based integration is more frequently utilized in conjunction with training and development than, for example, financial compensation. Respondents indicated, however, that when information-based integration occurs it is more likely to be facilitated by shared databases (e.g. corporate intranets) or via electronic communication systems (e.g. e-mail) than through the use of globally integrated information systems (e.g. ERP systems). The use of people-based mechanisms, whilst fairly commonplace, did not vary greatly across the individual HRM practices.

**Table 2.** Usage of global integration mechanisms across individual HRM practices [a] (N=76)

| | Financial Compensation | | Performance Appraisal | | Training & Development | | Recruitment & Selection | | AVERAGE (MEAN) | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Centralization-based (α = .94: R=.75; T=.93; F=.93; P=.85)* [b] | *3.93* | *(1.94)* | *3.18* | *(1.80)* | *2.26* | *(1.28)* | *2.22* | *(1.20)* | **2.88** | **(1.23)** |
| Decisions made by headquarters regarding… | Importance of bonus | | Appraisal methods | | Amount of training | | Recruit. methods | | | |
| | 3.99 | (2.12) | 3.70 | (2.28) | 2.18 | (1.32) | 2.12 | (1.43) | | |
| | Bonus criteria | | Appraisal criteria | | Content of training | | Selection criteria | | | |
| | 3.92 | (2.06) | 3.47 | (2.22) | 2.36 | (1.41) | 2.37 | (1.54) | | |
| | Bonus process | | Appraisal outcomes | | Delivery of training | | Selection tools | | | |
| | 3.92 | (2.11) | 2.45 | (1.63) | 2.25 | (1.36) | 2.22 | (1.47) | | |
| *Formalization-based (α = .91: R=.85; T=.90; F=.91; P=.89)* | *3.86* | *(1.84)* | *4.32* | *(1.82)* | *3.82* | *(1.65)* | *3.97* | *(1.70)* | **4.00** | **(1.54)** |
| Fairly well specified, global standard procedures & manuals | 3.72 | (1.94) | 4.38 | (2.06) | 3.80 | (1.80) | 3.92 | (1.90) | | |
| Fairly well specified, global common rules and policies | 3.79 | (1.96) | 4.49 | (2.04) | 3.89 | (1.76) | 3.97 | (1.93) | | |
| Monitoring that globally common rules, policies and procedures are not violated | 4.07 | (2.09) | 4.08 | (1.92) | 3.75 | (1.90) | 4.03 | (1.99) | | |
| *Information-based (α = .92: R=.80; T=.89; F=.88; P=.90)* | *3.03* | *(1.72)* | *3.20* | *(1.84)* | *3.57* | *(1.78)* | *3.39* | *(1.70)* | **3.30** | **(1.53)** |
| Databases to share information internationally | 3.17 | (2.03) | 3.47 | (2.14) | 3.83 | (1.96) | 3.72 | (2.08) | | |
| Information exchanged via global communication systems | 3.24 | (1.97) | 3.33 | (2.07) | 3.80 | (2.01) | 3.72 | (2.00) | | |
| Information on globally integrated information systems | 2.67 | (1.72) | 2.79 | (1.85) | 3.08 | (1.91) | 2.72 | (1.92) | | |
| *People-based (α = .87: R=.79; T=.85; F=.85; P=.86)* | *3.70* | *(1.83)* | *3.56* | *(1.78)* | *3.61* | *(1.64)* | *3.41* | *(1.57)* | **3.57** | **(1.53)** |
| Meetings with colleagues from HQ | 3.97 | (2.07) | 3.74 | (2.00) | 3.82 | (1.85) | 3.37 | (1.87) | | |
| Personal contact with colleagues from HQ | 3.43 | (2.11) | 3.30 | (1.98) | 3.47 | (1.82) | 3.32 | (1.87) | | |
| Committees or task forces including HQ & subsidiary representatives | 3.68 | (2.08) | 3.63 | (2.07) | 3.54 | (1.93) | 3.54 | (1.88) | | |
| AVERAGE (MEAN) | **3.63** | **(1.42)** | **3.56** | **(1.54)** | **3.32** | **(1.27)** | **3.25** | **(1.21)** | | |

[a] Values are mean scores with standard deviations in parentheses regarding the use of mechanisms to integrate HRM practices (1 = do not agree… 7 = entirely agree).
[b] Reliability scores (Cronbach Alpha) reported across (α) and within HRM practices, where R = Recruitment & Selection, T = Training & Development, F = Financial Compensation, and P = Performance Appraisal.

To test the hypotheses, paired-sample t-tests were conducted to determine if the mean usage of mechanisms to integrate one individual HRM practice differed significantly from the mean use of mechanisms to integrate the other three HRM practices. To assess effect sizes, Pearson's correlation coefficients were calculated for each pair and are reported alongside the t-test scores in Table 3.

**Table 3** Paired-sample *t*-tests for individual HRM practices and integration mechanisms

| Pair | df | *t* | Sig. (2-tailed) | Pearson's *r* |
|---|---|---|---|---|
| RS centralization – TD centralization | 72 | -0.174 | 0.862 | 0.021 |
| RS centralization – FC centralization | 72 | -7.678*** | 0.000 | 0.671 |
| RS centralization – PA centralization | 71 | -4.687*** | 0.000 | 0.486 |
| TD centralization – FC centralization | 72 | -7.777*** | 0.000 | 0.676 |
| TD centralization – PA centralization | 74 | -5.218*** | 0.000 | 0.519 |
| FC centralization – PA centralization | 71 | 3.603** | 0.001 | 0.393 |
| RS formalization – TD formalization | 75 | 1.150 | 0.254 | 0.132 |
| RS formalization – FC formalization | 75 | 0.682 | 0.497 | 0.079 |
| RS formalization – PA formalization | 75 | -2.272* | 0.026 | 0.254 |
| TD formalization – FC formalization | 75 | -0.279 | 0.781 | 0.032 |
| TD formalization – PA formalization | 75 | -3.050** | 0.003 | 0.332 |
| FC formalization – PA formalization | 75 | -2.773** | 0.007 | 0.305 |
| RS information – TD information | 75 | -1.276 | 0.206 | 0.146 |
| RS information – FC information | 75 | 2.370* | 0.020 | 0.264 |
| RS information – PA information | 75 | 1.213 | 0.229 | 0.139 |
| TD information – FC information | 75 | 3.101** | 0.003 | 0.337 |
| TD information – PA information | 75 | 2.265* | 0.026 | 0.253 |
| FC information – PA information | 75 | -0.973 | 0.334 | 0.112 |
| RS people – TD people | 75 | -1.920 | 0.059 | 0.216 |
| RS people – FC people | 75 | -1.874 | 0.065 | 0.211 |
| RS people – PA people | 75 | -1.049 | 0.298 | 0.120 |
| TD people – FC people | 75 | -0.572 | 0.569 | 0.066 |
| TD people – PA people | 75 | 0.390 | 0.698 | 0.045 |
| FC people – PA people | 75 | 0.917 | 0.362 | 0.105 |

RS = Recruitment & Selection TD = Training & Development
FC = Financial Compensation PA = Performance Appraisal
***P<0.001, **P<0.01, *P<0.05.

Hypothesis 1 referred to the use of mechanisms in integrating *financial compensation*. Looking across the four mechanism types, the results indicate that centralization is significantly (P<0.001, and P<0.01, r = 0.39-0.68) more utilized to integrate financial

compensation relative to all the other HRM practices. However, the use of formalization to integrate financial compensation was not shown to be significantly different from the other practices. Since the predicted order of mechanism usage for financial compensation was first centralization, second formalization, and third people- and information-based mechanisms, Hypothesis 1 was thus partly supported.

With regards to Hypothesis 2, formalization emerged as being the most significantly ($P<0.01$ and $P<0.05$, $r = 0.25$-$0.33$) utilized mechanism in integrating *performance appraisal* compared to the other three practices. Furthermore, centralization was shown to be significantly more utilized in integrating performance appraisal in relation to the other HRM practices ($P<0.001$, $r = 0.49$-$0.52$) with the exception financial compensation, as predicted. Therefore, Hypothesis 2 was supported.

As hypothesized, the results indicate significant differences in the greater use of information-based mechanisms to integrate recruitment and selection over financial compensation ($P<0.05$, $r = 0.26$), training and development over financial compensation ($P<0.01$, $r = 0.34$), as well as training and development over performance appraisal ($P<0.05$, $r = 0.25$). However, expected differences in mechanism usage in the integration of training and development (Hypothesis 3) and recruitment and selection (Hypothesis 4) were not evident across all paired samples. Subsequently, Hypothesis 3 receives only marginal support and Hypothesis 4 receives no support.

**Discussion and Conclusion**

*Differential usage of global integration mechanisms across individual HRM practices*

Based on a sample of 76 European-owned units located in China, this study contributes to the research on HRM in MNCs by firstly, exploring the extent to which individual HRM practices are integrated into foreign subsidiaries via different mechanisms, and secondly, investigating whether systematic differences exist in mechanism usage across four HRM practices. The results indicate that whilst a diverse range of integration mechanisms are used, none of them were used very extensively in our sample. The findings do support the view that MNCs use multiple HRM integration mechanisms at varying levels of intensity (e.g. Edwards et al., 1996; Wolf, 1997; Ferner et al., 2004).

The study shows that there is differential usage of global integration mechanisms across individual HRM practices. Most notable in this respect was the far greater use of centralization to integrate financial compensation compared to its use in integrating recruitment and selection or training and development. This finding is representative of earlier research that has shown MNCs to push for greater centralization of decision-making on financially sensitive HR issues, especially those that exhibit a close link with performance (Monks, 1996; Farley et al., 2004). In reference to agency theory, the centralized design of compensation systems can be interpreted as an attempt to control subsidiary behaviors (O'Donnell, 2000). As predicted, control-based explanations for the use of centralization do not hold, however, when the HRM practice being integrated (e.g. recruitment and selection) is subject to greater localization demands.

Formalization was more commonly utilized in conjunction with performance appraisal integration. This finding is broadly consistent with recent empirical work indicating the use by MNCs of global performance appraisal policies for senior managers (e.g. Ferner et al., 2004) and their ability to formalize and successfully transfer appraisal practices to foreign subsidiaries despite the existence of cross-cultural differences (Lindholm, 1999). Argued to be most effective when practices can be codified into specific rules and procedures (Kim et al., 2003), the preferred use of formalization-based mechanisms to integrate performance appraisal practices seems to imply a belief by MNCs not only in the value of transferring standardized appraisals, but also that appraisals are largely explicit in nature and best suited to integration in written form.

The marginally greater use of information-based mechanisms to integrate training and development as well as recruitment and selection practices suggests that these two HRM practices are either more susceptible to codification or are perceived as more likely to benefit from it in terms of integration. However, the relatively low usage of information-based integration, especially globally integrated HR information systems, indicates that this form of integration may only represent an extra channel of corporate communication where information concerning internal training courses and job vacancies is shared, or acts as an information repository for HR policies and guidelines. However, in reference to host subsidiary characteristics in general and to the Chinese sample of the present study in particular, issues such as IT literacy, linguistic ability and the extent to which the work of professionals and managers necessitates access to computers will undoubtedly have affected the use of information-based integration mechanisms.

The use of people-based integration mechanisms did not vary extensively across the individual HRM practices. In line with the expatriation literature, this might be explained by the multiple roles that such 'integrators' can adopt, often simultaneously, including the control and close supervision of foreign subsidiaries, the transfer of parent organizational and cultural knowledge (Edström & Galbraith, 1977; Harzing, 2001) as well as their role in negotiating greater localization as 'interpreters' of host contextual constraints (Ferner et al., 2004).

In conclusion, this study extends the focus of analysis to the under-researched practice level and has demonstrated variance in how individual HRM practices are globally integrated. This further underlines the need to conceptualize HRM as a set of differentiated practices that, in turn, are subject to different pressures of global integration and local responsiveness (Rosenzweig & Nohria, 1994). It would be constructive to investigate whether similar within-function practices of other business functions, for example the four P's of the marketing mix, are also globally integrated in heterogeneous ways. In terms of organizational practices in MNCs, there is thus scope for more systematic research on organizational integration mechanisms to complement the hereto dominant internal/structural (e.g. subsidiary size and ownership) and external/environmental variables (e.g. MNC country of origin) in explaining patterns of standardization and localization in foreign subsidiaries.

Myloni et al. (2004) conclude from their study into HRM in MNCs that one theoretical framework is unlikely to be sufficient in identifying the multitude of influences on the transfer of HRM practices. Sharing this sentiment, our definition of global integration draws on the agency perspective of control, the knowledge-based perspective of practice transfers, and on the institutional and cultural perspectives of appropriate local adaptation. Although the findings of this study appear to support this more nuanced view of global integration, its further empirical testing in other research settings is warranted. In line with the study by Pudelko and Harzing (2007) on the forces shaping subsidiary HRM practices, of particular interest here would be the relative importance of country-of-origin, localization and dominance effects on the use of mechanisms to integrate HRM practices. Whilst extant research has indicated both country-of-origin (e.g. Harzing & Sorge, 2003) and host-country effects (e.g. Gomez & Sanchez, 2005) on the choice of integration mechanisms in MNCs, Hennart (2005) concludes that findings from the wider international management literature on this subject remain fragmentary and far from conclusive. In an attempt to address this weakness, the present study offers an alternative point of departure from which to study

patterns of global integration in MNCs, arguing that the usage of integration mechanisms will be contingent on the main objectives of global integration as well as on the nature of the practice being integrated.

**Limitations**

The present study's findings, however, must be qualified in light of its limitations, which themselves open up fruitful avenues for future research. Firstly, the study does not speak to the issue of global integration effectiveness. Investigating the issue of effectiveness, however, requires a more critical look at integration outcomes than has perhaps been taken in previous studies. In line with our proposed definition of global integration, for instance, integration outcomes will need to reflect the three potential objectives of global integration (i.e. control, transfer and appropriate adaptation), which in turn will differ in importance depending on the practice in question. Although the degree of resemblance to parent and local practices is one commonly applied measure of effectiveness, its key weakness rests in not adequately capturing the extent of host adoption, which is argued to range from surface-level imitation to implementation to deeper internalization (Kostova, 1999). One might also consider the effects of mechanism usage, or combinations of mechanisms, to integrate HRM on the economic performance of subsidiaries (cf. Kim et al., 2003) as well as on social performance in terms of the host employee-related effects they generate, such as learning, commitment or resistance.

Secondly, the findings of the study are based on the single host context of China. This is pertinent given the purportedly significant role that environmental complexity and volatility play in determining the use of control mechanisms (Ghoshal & Nohria, 1989; O'Donnell, 2000). Future research is therefore merited in other host environments, especially those that are less distant from the MNC country of origin in order to investigate whether the relationships uncovered here extend to situations where environmental differences are less substantial. How MNCs globally integrate HRM in other host countries in transition might also be instructive in assessing the generalizability of the present findings.

**Managerial Implications**

The main practical implication of the study's findings is that corporate HR practitioners need to consider the specific aims behind globally integrating each individual HRM practice (i.e. the desired degree of control, practice transfer and appropriate adaptation) and tailor the use of integration mechanisms accordingly. In this sense, the global integration of HRM requires

corporate HR (ideally in collaboration with subsidiary HR) to draw up *configurations* of integration mechanisms that will most effectively achieve the firm's HRM integration aims. We stress that different configurations are needed since, as has been shown in this study, one size does not appear to fit all in terms of individual HRM practices.

The configuration (or 'systems') approach requires corporate HR to pay attention not only to the relative merits of individual HRM integration mechanisms, but also to how they might mutually reinforce or undermine each other. For instance, the efficient transfer of performance appraisal practices might be best facilitated by formalizing policies and procedures, but their subsequent implementation might be assisted through the use of an HR information system application that walks employees through the appraisal process. On the other hand, tight control over the awarding of bonuses by centralizing decision-making could be compromised if combined with excessive personal meetings between corporate and subsidiary HR where there is greater scope for negotiation and local adaptation.

Utilizing integration mechanisms as complements and not substitutes shifts the focus of decision-making away from which mechanisms to use towards how much emphasis. The implication of this for HR practitioners is that they need to acquire a sense of when a more personal or direct emphasis is needed and when a more impersonal or indirect emphasis will suffice. The answer to this extremely complex question should be based on the overall integration aims and the HRM practice in question, but will undoubtedly also be shaped by such things as the organization's heritage, its resource base, the strategic role of the subsidiaries in question, and the depth of understanding corporate HR possesses about how different subsidiaries are likely to react to various forms of headquarters intervention.

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**Paper 3**

**Smale, A., Björkman, I. & Sumelius, J.**

**Antecedents of HRM integration mechanism usage in MNC subsidiaries in China**

# ANTECEDENTS OF HRM INTEGRATION MECHANISM USAGE IN MNC SUBSIDIARIES IN CHINA

**Abstract**

*A neglected issue in the international HRM literature is the mechanisms through which MNCs integrate HRM practices across their foreign subsidiaries, and why they are used. Accordingly, the present study sought to shed light on the antecedents of HRM integration mechanism usage in MNCs and to establish the extent to which antecedents differ in importance across different mechanism types. To do this a set of hypotheses was developed and tested on a sample of 76 European-owned subsidiaries located in China. The results show that the use of HRM integration mechanisms is greater in smaller, more capital-intensive subsidiaries that employ larger numbers of expatriates.*

## 1. Introduction

The question addressed in this paper is why multinational corporations (MNCs) use certain mechanisms to integrate the Human Resource Management (HRM) practices used in foreign subsidiaries. Despite the wealth of research conducted on MNC subsidiary integration in general, our knowledge about the use of integration mechanisms in MNCs and of cause and effect relationships remains fragmentary and inconclusive (Young & Tavares, 2004; Hennart, 2005).

Whilst we have come to learn that MNCs are deploying an ever greater number of both formal and informal integration mechanisms (Martinez & Jarillo, 1989), in combination and at varying levels of intensity (Engelhoff, 1984; Kim et al., 2003), it is unclear which factors are most important in explaining why MNCs use different mechanisms. Earlier studies on integration mechanisms have been argued to be fairly narrow in terms of the limited number of mechanisms included, the relatively small sample sizes and the number of countries represented (Harzing & Sorge, 2003). Furthermore, such studies rarely investigate global integration at the business function level (cf., Kim et al., 2003). This is especially true of research on the HR function.

The international HRM literature has not paid much attention to the mechanisms through which MNCs globally integrate human resource management practices across their foreign

subsidiaries (Smale, 2008). Those studies that do investigate HRM integration mechanisms focus either on specific mechanisms such as expatriation (Björkman & Lu, 2001; Hetrick, 2002) or internal benchmarking (Martin & Beaumont, 1998), or on in-depth, case-study evidence regarding power and political explanations behind their usage (Martin & Beaumont, 1999; Ferner et al., 2004). What is lacking, however, is systematic research that combines multiple mechanisms of global HRM integration and explanations behind their reportedly differential usage (Gomez & Sanchez, 2005). It is in this regard that the present study makes its key contribution.

More specifically, the present study aims to shed light on, firstly, the antecedents of HRM integration mechanism usage in MNCs, and secondly, to establish the extent to which antecedents differ in importance across different mechanism types. This is achieved by developing and testing a set of hypotheses concerning the influence of MNC and subsidiary structural characteristics (or universal contingencies) on the use of HRM integration mechanisms on a sample of 76 European-owned subsidiaries located in China.

The following section reviews the literature on the mechanisms of global HRM integration. Based on this literature as well as the general international management literature on global integration in MNCs, testable hypotheses are developed regarding the antecedents of HRM integration mechanism usage. After presenting the methods and results of the study, the paper concludes with a discussion of the findings and the implications for research and practice.

## 2. Mechanisms of HRM integration in MNCs

The concepts of control, coordination and integration are used somewhat interchangeably in the international management literature. Whereas control often denotes a ‘vertical’ tool defined as any process in which a person, group or organization determines or intentionally affects what another person, group or organization will do (Baliga & Jaeger, 1984), coordination denotes more of a ‘horizontal’ tool referred to as the means through which the different parts of an organization are linked together to accomplish a collective goal (Van de Ven, Delbecq, & Koenig, 1976). Building on the approach by Kim, Park and Prescott (2003), who view global integration as comprising both control and coordination, we define global integration in this study to include the control of foreign subsidiaries, the transfer of practices

to those subsidiaries, and the appropriate adaptation of activities that requires both an understanding of parent practices and local conditions.

Research on the mechanisms firms use to achieve integration of their foreign subsidiaries has a long history. Partly for this reason, but also because over time firms have been using greater numbers and more subtle forms of integration mechanisms (Martinez & Jarillo, 1989), a number of different classifications of mechanism types have been developed. Based on the early work of Child (1973), who suggested that firms can choose between either bureaucratic or personal control systems to regulate output or behavior, classifications have become broader to include additional mechanisms such as centralization (Baliga & Jaeger, 1984), normative integration (Ghoshal & Nohria, 1989), socialization and networks (Harzing, 1999), and more recently, intellectual and emotional integration (Ghoshal & Gratton, 2002).

In this study the classification offered by Kim et al. (2003) is applied in which they distinguish between four types of global integration modes. *Centralization*-based integration refers to where decision-making authority resides at MNC headquarters; *formalization*-based integration involves the standardization of work procedures, rules, policies, and manuals; *information*-based integration comprises international flows of information through databases, intranets and electronic data exchanges; and *people*-based integration involves person-to-person interaction facilitated through meetings, teams, committees, the use of integrators, and the transfer of people across units.

Turning to the empirical work carried out specifically on the mechanisms used to globally integrate HRM, a lot of what we know is based on findings from qualitative case-studies involving only one or two MNCs, typically of US or UK origin. The mechanisms of HRM integration in these studies (predominantly expatriates) often take a secondary role in analyses of HRM integration versus responsiveness (Monks, 1996; Hetrick, 2002; Gamble, 2003). However, some case studies do explore a range of HRM integration mechanisms used, highlighting variation both between and within MNCs in how HRM is integrated in foreign subsidiaries (Edwards, Ferner, & Sisson, 1996; Tempel, 2001).

Quantitative studies on HRM in MNCs, on the other hand, rarely include variables related to integration mechanisms in trying to explain the degree of global integration versus local responsiveness. The few studies that have included integration mechanisms have shown that parent-affiliate communication (Rosenzweig & Nohria, 1994) and expatriation (Björkman &

Lu, 2001) are positively related to greater HRM integration as measured by the resemblance of foreign subsidiary HRM practices to the parent.

Among the most focused studies on HRM integration mechanism usage is Wolf's (1997) study on the use of HRM coordination processes in 82 foreign subsidiaries of US and European MNCs. The findings support the notion of the heterarchical MNC, insofar as HRM coordination mechanisms were used heterogeneously from subsidiary to subsidiary within MNCs. Based on this research, caution is advised about attributing explanations to the nationality of MNCs since corporations of the same national origin were shown to exhibit different usage patterns. In another quantitative study, Gomez and Sanchez (2005) found that each type of HRM control mechanism ('formal' or 'informal') has a different set of internal (i.e. subsidiary characteristics) and external (i.e. host institutional environment) antecedents. In addition, a global strategy was related to the greater use of both formal and informal HRM control mechanisms, and the extent of subsidiary embeddedness in their local environment was linked to the greater use of informal mechanisms.

In sum, relatively little research attention has been paid to the issue of how HRM is integrated in MNC subsidiaries and even less attention to the possible reasons behind the use of certain HRM integration mechanisms. Thus, drawing on the above literature and the international management literature on the use of coordination and control in MNCs, the next section develops a set of hypotheses regarding the antecedents of HRM integration mechanism usage.

## 3. Hypotheses

This study builds on the assumption that HRM integration mechanisms are driven at least in part by different antecedents and that integration mechanisms are not mutually exclusive but can meaningfully co-exist. This 'systems' approach is in line with those of other similar studies (Ferner, 2000; Kim et al., 2003; Gomez & Sanchez, 2005).

Based on the seminal work of Lawrence and Lorsch (1967) the contingency view on organizational integration attributes explanations for integration mechanism usage to either contextual or universal factors (Baliga & Jaeger, 1984). In terms of contextual factors, studies on MNC control have applied various concepts including 'uncertainty' (Baliga & Jaeger, 1984), 'complexity' (Ghoshal & Nohria, 1989) and 'volatility' (O'Donnell, 2000) in attempts

to capture how the external pressures that subsidiaries face affect the use of integration mechanisms by the parent company. Whilst there is some agreement that more complex host environments are associated with less centralization, there is less agreement, for example, about whether such environments lead to the greater or lesser use of formalization or any other mechanisms of integration.

Due to the ambiguous nature of the findings on integration mechanism usage in MNCs (Young & Tavares, 2004; Hennart, 2005) and in order to reduce the complexity of the model to be tested, the present study focuses on universal contingency explanations. To reduce the effects of contextual factors, the study investigates MNC subsidiaries all located in the same host context (i.e. China) and includes a control for the home region of the MNC.

Similar to Dickmann's (2003) classification of factors that influence either the 'desirability' or 'feasibility' of internationally coordinating HRM activities, the universal contingency explanations that form the basis of the hypotheses below are divided into those that act as *motives* for the parent to use HRM integration mechanisms, and those that affect the *ability* of the parent to do so. In the absence of existing theories and empirical research, we refrain from developing hypotheses on the relationships between universal contingencies and specific types of integration mechanism. However, we will perform post-hoc analyses of antecedents by mechanism type.

### *3.1.Motives*

#### *3.1.1. Subsidiary size*

One motive for the parent to use HRM integration mechanisms is to integrate more extensively those subsidiaries that are regarded as strategically important. One of the ways in which a subsidiary could be considered strategically important is its size. For instance Gupta and Govindarajan (2000) argue that large subsidiaries have more resources to devote to creating new knowledge with the potential to add value to the MNCs operations. Empirically, Child (1973, 1974) shows that as subsidiary size increases integration via centralization decreases and is replaced with a more decentralized integration strategy characterized by more standardized rules and procedures (i.e. formalization-based mechanisms). Subsidiary size has also been shown to be positively related to centralization (Young, Hood, & Hamill,

1985), output control (Egelhoff, 1984), the use of expatriates, socialization and networks (Harzing, 1999) and indirect personal control (Harzing & Sorge, 2003).

Gooderham, Nordhaug and Ringdal (1999) argue from an institutional perspective that larger MNCs will adopt more socially responsible (i.e. locally adapted) HRM practices in other countries due to their greater visibility and thus greater pressure to gain legitimacy and acceptance. This, in turn, is likely to present limitations to the use of more centralization- and formalization-based forms of HRM integration. Assuming that larger MNCs will generally have larger foreign subsidiaries, Myloni, Harzing and Mirza's (2004) findings amongst MNC subsidiaries in Greece provide some support for this relationship, showing that HRM practices are generally more difficult to transfer to larger subsidiaries.

On the other hand, Wolf (1997) provides evidence of how technocratic (i.e. centralization and/or formalization) mechanisms are more prevalent in the integration of HRM in larger foreign subsidiaries. The explanation provided is that larger units have the administrative potential to interact with headquarters through technocratic means. Gomez and Sanchez (2005) also reveal how subsidiary size is positively associated with the use of formal integration mechanisms.

In general, therefore, whilst the emphasis on different types of HRM integration mechanisms used might shift as subsidiaries grow in size, larger and therefore more important subsidiaries will still be subjected to more extensive HRM integration efforts than smaller subsidiaries. This leads us to make the following hypothesis:

**Hypothesis 1.** The use of HRM integration mechanisms by the parent will be positively related to the size of the foreign subsidiary.

### *3.1.2. Interdependence*

Another way in which a subsidiary might be regarded as strategically important is the extent to which its operations are inter-connected and therefore interdependent with operations throughout the MNC. A high degree of dependence of the MNC on a particular foreign subsidiary implies that the subsidiary plays an important role within the MNC, which in turn will influence the extent of integration corporate headquarters pursues over the subsidiary's HRM practices (Taylor, Beechler, & Napier, 1996). Further, when the parent organization

and a foreign subsidiary are inter-related for instance in terms of shipments of components or finished goods, a high degree of integration may lead to larger efficiency gains in the company-internal value chain. Concomitantly, a high level of subsidiary autonomy is likely to result in the lesser use of headquarters supervision and bureaucratic monitoring mechanisms (O'Donnell, 2000).

Several studies support this line of reasoning. Studies have shown that in instances of high parent-subsidiary and inter-unit interdependence behavior-based forms of cultural integration are more extensively used (Ghoshal & Nohria, 1989; O'Donnell, 2000). While Ambos and Schlegelmilch (2007) argue that the 'network centrality' of a subsidiary will also confer a significant degree of power to the subsidiary that will restrict the ability of the parent to deploy centralization-based forms of integration, their results revealed that interdependence was indeed positively related to the use of different integration mechanisms.

Research on HRM in MNCs conducted with the power bargaining and resource-dependency perspectives has shown how factors such as the nature of MNC headquarters-subsidiary relationships (Nohria & Ghoshal, 1994), organizational politics (Martin & Beaumont, 1999; Ferner et al., 2004) and relative bargaining power (Björkman & Lu, 2001) are key determinants of HRM practices in foreign subsidiaries. It has also been shown empirically that the greater the dependence of the foreign subsidiary on the parent company, the more the HR decisions of the subsidiary will be controlled by headquarters (Martinez & Ricks, 1989) and the more likely globally integrated international HR strategies will be visible (Hannon, Huang, & Jaw, 1995). Collectively, this leads us to make the following hypothesis:

**Hypothesis 2.** The use of HRM integration mechanisms by the parent will be positively related to the degree of interdependence between the subsidiary and the MNC.

### *3.1.3. Capital intensity of the subsidiary*

A further way in which a subsidiary could be construed as important to the MNC is the capital intensity of its operations. Gupta and Govindarajan (1991) argue that the amount and direction of resource flows between the parent and foreign subsidiary will determine the subsidiary's strategic role. Resource flows in the form of parent investments in subsidiary facilities are likely to be greater in capital-intensive units than labor-intensive ones. Reflected

in this comparatively greater investment in subsidiary operations, we expect the parent to seek to integrate capital-intensive subsidiaries more extensively.

The degree of capital versus labor intensity of subsidiary operations is likely to be connected to the industry in which the MNC operates. Industry sector has been shown to affect the use of integration mechanisms (e.g., Harzing & Sorge, 2003) and the transfer of HRM practices (e.g., Myloni et al., 2007), and we would expect that subsidiaries involved in the delivery of services (i.e. more labor intensive) to be subjected to less integration than manufacturing-based (i.e. more capital intensive) subsidiaries. Amongst other reasons, this is because capital-intensive units are more likely to belong to one of the more globalized industries (e.g., automotive, electronics) that have been shown to exhibit higher levels of integration/centralization (Kobrin, 1991; Roth & Morrison, 1992). Therefore, we propose the following hypothesis:

**Hypothesis 3.** The use of HRM integration mechanisms by the parent will be greater in subsidiaries that are more capital intensive.

### *3.2.Ability*

#### *3.2.1. Number of expatriates*

Expatriates can be considered a type of integration mechanism in their own right (e.g. Edström & Galbraith, 1977), but they can also influence the ability of the parent to use other forms of integration, for example centralization or the promotion of shared corporate values (Harzing, 1999), via their socialization and networking capabilities (Legewie, 2002). In the international HRM literature expatriates are described to play a number of important HRM integration-related roles, including 'role models', 'boundary spanners' and 'coaches' (Hetrick, 2002) as well as communicators of HRM-related knowledge (Gamble, 2003). Accordingly, a greater similarity between subsidiary HRM practices and those of the parent is typically found in units with a high expatriate presence (e.g., Rosenzweig & Nohria, 1994; Myloni, Harzing, & Mirza, 2007; Björkman et al., 2008).

Less evident in extant research, however, is the impact of expatriate presence on the use of other HRM integration mechanisms. Whilst it is acknowledged that integration mechanisms are used in combination and at different levels of intensity (e.g. Kim et al., 2003) the presence

of expatriates is likely to make the use of alternative integration mechanisms easier to implement in foreign subsidiaries. For instance, in their capacity as mediator between corporate headquarters and the local HR department, expatriates occupy an influential position in terms of communicating, discussing and explaining the HR decisions made by headquarters or the HR rules that have to be followed, hence facilitating centralization- and formalization-based integration. Particularly if the expatriate has come from the parent country, factors in addition to the managerial post they hold such as shared mindset and shared language will also result in more frequent contact with headquarters (i.e. facilitating people-based integration). In light of the above arguments we present the following hypothesis:

**Hypothesis 4.** The use of HRM integration mechanisms by the parent will be positively related to the number of expatriates in the foreign subsidiary.

### *3.2.2. Size of the MNC*

The size of the MNC will affect its ability to use integration mechanisms in that larger firms possess more resources and thus administrative potential to dedicate to the tighter integration of foreign subsidiaries. Although HRM integration in larger firms is likely to be more complex and more difficult to achieve, larger firms can draw on a greater pool of resources in establishing organizational mechanisms that promote HRM integration, for example global HR policy frameworks (Ferner et al., 2004), social networks and knowledge transfer 'spaces' such as Centres of Excellence and Communities of Practice (Sparrow, Brewster, & Harris, 2004), and globally integrated HR information systems (Tansley, Newell, & Williams, 2001; Stone, Stone-Romero, & Lukaszewski, 2006).

Empirical support for this relationship is found by O'Donnell (2000), who reveals how firm size is related to greater use of headquarters supervision, lateral integrating mechanisms and monetary incentives but lesser use of bureaucratic monitoring mechanisms. Accordingly, we predict the following relationship:

**Hypothesis 5.** The use of parent HRM integration mechanisms will be positively related to the size of the MNC.

### *3.2.3. Background of the subsidiary HR Manager*

Building on Björkman and Lu (2001) we argue that the background of the subsidiary HR manager is likely to affect the ability of the parent to use HRM integration mechanisms. More specifically, HR managers with a background of working in local Chinese firms or not having worked in HR at all (e.g. university graduates) will affect the extent to which MNC headquarters can utilize the range of HRM integration mechanisms at their disposal. This is likely to occur since those HR managers' concepts of legitimate HRM practices, having had limited or no experience of working in an international firm, will be different from the parent's. Thus, their lower absorptive capacity and their correspondingly low level of strategic HRM capabilities (Sumelius, Björkman, & Smale, in press) will act as barriers to the transfer of parent HRM practices and to parent-driven attempts at HRM integration.

Following this line of argumentation, the recruitment of an HR manager from within the MNC or from another MNC, who is likely to possess more knowledge and skills concerning HRM issues in international firms, will allow for the more extensive use of parent HRM integration mechanisms. In China, for example, such managers are more likely to be in direct contact with corporate or regional HR personnel as well as being more active in personal and/or professional HR networks with other MNCs (Smale, 2008). We therefore advance the following hypothesis:

**Hypothesis 6.** The use of HRM integration mechanisms by the parent will be greater in subsidiaries in which the subsidiary HR Manager has been recruited from within the MNC or from another MNC.

### *3.2.4. Subsidiary ownership*

The ability of the MNC parent to use HRM integration mechanisms will be constrained in situations where ownership of the subsidiary is shared. For instance, in joint ventures there will be pressure from both parents that in different ways will affect subsidiary operations (Shenkar & Zeira, 1987). From an institutional perspective, the local joint venture partner is likely to serve as a carrier of institutional pressures that prevail in the local environment and thereby limit the degree of parent-driven HRM integration (Rosenzweig & Nohria, 1994). Therefore, compared with wholly-owned foreign subsidiaries we can expect the MNC parent to use HRM integration mechanisms to a lesser extent in joint ventures.

To the extent that the greater use of HRM integration mechanisms is reflected in the greater parent resemblance of subsidiary HRM practices, then several empirical studies can be seen to support this line of argumentation. In particular, a number of studies on HRM practices found in MNC subsidiaries in China have either shown a positive relationship between the proportion of equity held by the foreign parent and the degree of parent resemblance of HRM practices (e.g. Björkman & Lu, 2001), or that HRM practices are more locally adapted in subsidiaries where the MNC has minority ownership compared to when it has majority or full ownership (e.g. Braun & Warner, 2002). The final hypothesis is thus:

**Hypothesis 7.** The use of HRM integration mechanisms by the parent will be greater in subsidiaries that are wholly owned compared to joint ventures.

## 4. Method

### *4.1.Data collection*

Data for the study were collected using a pre-tested questionnaire survey administered through standardized face-to-face interviews with the General Manager and HR Manager in Chinese subsidiaries of European MNCs. Data collection for the study took place between November 2005 and October 2006. It began with compiling lists of foreign owned subsidiaries in China from national Chambers of Commerce and other similar foreign investment bodies. These lists were supplemented via the use of the authors' existing contacts and through the snowballing method. From a total sample of 311 subsidiaries contacted 87 agreed to participate. However, due to the absence of responses from the HR Manager in 11 of the units, the present study is based on the remaining usable sample of 76, giving a response rate of 24%. The units were mostly located in or nearby the city districts of Beijing and Shanghai. A more detailed breakdown of the sample characteristics is provided in Table 1.

Interviews were carried out face-to-face, except in two cases where telephone interviews were used. The interviews were structured so that the interviewer and respondent first completed the questionnaire together then a semi-structured interview followed during which certain topics from the questionnaire were discussed in greater detail. The current study is based solely on the questionnaire data.

The HR Manager responded to questions comprising the dependent variable (i.e. the use of HRM integration mechanisms), whereas the General Manager responded to questions comprising the independent and control variables (i.e. information about MNC and subsidiary operations). In cases where the General Manager was not available (n=8) we used responses from the HR Manager.

**Table 1.** Sample characteristics (N = 76)

| Item | Category | % |
|---|---|---|
| Subsidiary size (no. employees) | <100 | 31.6 |
| | 100-500 | 43.4 |
| | 501-1000 | 5.3 |
| | >1000 | 19.7 |
| Number of expatriates | <5 | 31.6 |
| | 5-10 | 44.7 |
| | >10 | 23.7 |
| MNC experience in China | <2 years | 9.3 |
| | 2-5 years | 22.7 |
| | >5 years | 68.0 |
| MNC size (€ million) | <200 | 22.4 |
| | 200-500 | 21.0 |
| | 501-1000 | 13.2 |
| | >1000 | 43.4 |
| Background of subsidiary HR Manager | Recruited from a Chinese company or school/ university | 25.3 |
| | Recruited from another Chinese unit of the MNC | 13.3 |
| | Recruited from another MNC | 46.7 |
| | Recruited from abroad | 6.7 |
| | Other | 6.7 |

### *4.2.Measures*

#### *4.2.1. Dependent variable*

The measure for HRM integration mechanism usage was based on Kim et al.'s (2003) four global integration modes; people-, formalization-, information- and centralization-based. In the interviews, respondents were asked to state their level of agreement concerning the use of

the different mechanisms in integrating four HRM practices (recruitment and selection, training and development, financial compensation, and performance appraisal) into their subsidiary. In the analysis the use of HRM integration mechanisms is thus an aggregate measure comprising mean scores across the four mechanism types and four HRM practices. At 0.88 the reliability value (Cronbach's alpha) for this construct was satisfactory.

Each type of integration mechanism consisted of three-item, seven-point Likert scales ranging from 1 (do not agree) to 7 (entirely agree). People-based mechanisms measured the extent to which parent HRM practices are integrated into the subsidiary via inter-personal communication, for example, in meetings with colleagues from headquarters. Formalization-based mechanisms sought responses regarding the extent to which parent HRM practices are integrated into the subsidiary via, for example, well-specified, worldwide standard procedures and manuals. Information-based mechanisms referred to, for example, the use of databases and worldwide communication systems to share HRM information internationally. Lastly, since Kim et al.'s (2003) centralization mode used function-specific scales (e.g. for marketing and manufacturing), centralization-based integration mechanisms in this study used a scale based on sub-dimensions of HRM practices found in earlier studies (Rosenzweig & Nohria, 1994; Hannon et al., 1995). Example items included the extent to which the methods of recruitment and the delivery of training are decided by headquarters.

Prior to the analysis of antecedents of HRM mechanism usage between mechanism types (reported in regression Models 3-5), confirmatory factor analysis (with Varimax rotation) was conducted to test for discriminant validity. Analysis revealed that formalization- and information-based integration mechanisms converged as one factor. As a result, the formalization- and information-based mechanisms were combined. A subsequent factor analysis was performed. The first factor (formalization-/information-based, $\alpha = .94$) explained 32.2% of the variance of the rotated solution with factor loadings between .866 and .881, the second factor (centralization-based, $\alpha = .95$) 30.7% with factor loadings between .817 and .916, and the third factor (people-based, $\alpha = .87$) 25.5% with factor loadings between .644 and .887. Despite the third factor having an Eigenvalue slightly below 1, based on theoretical arguments and no significant cross-loadings exceeding the .50 level (Hair et al., 1998) we decided to maintain the distinction between three mechanism types.

*4.2.2. Independent variables*

**Subsidiary size.** Subsidiary size was measured by taking the natural logarithm of the total number of employees in the subsidiary in order to dampen the high variation in size (from 10 to 6400) and achieve a more normal distribution for the variable.

**Interdependence.** This variable sought to capture the level of interdependence between the subsidiary and the MNC by measuring the level of transactions taking place between the foreign subsidiary and the rest of the MNC. Interdependence was thus operationalized as a two-item measure which asked respondents to state what percentage of the subsidiary's (a) sales and (b) purchases take place within the MNC (see e.g., Harzing & Sorge, 2003). The mean of the two percentage scores was used in the analysis.

**Subsidiary operations.** This was measured by asking respondents to indicate on a 7-point scale the extent to which their subsidiary's operations were labor intensive (1) or capital intensive (7).

**Number of expatriates.** Due to the uneven distribution of expatriates in the data set (varying from 0 to 200) the number of expatriates was recalculated as the natural logarithm of total foreign employees in the subsidiary.

**MNC size.** Size was measured as the natural logarithm of annual turnover for the whole MNC for the most recent financial year. In most cases the data were provided by respondents. Any missing values were replaced with figures from the company's published financial statements.

**Background of the subsidiary HR Manager.** Respondents were asked whether the HR Manager was recruited from within the MNC, from another MNC, or elsewhere (e.g. local Chinese company or university). Responses were coded into a dummy variable whereby responses indicating that the HR Manager has been recruited from within the MNC or from another MNC were assigned the value 1, and subsidiaries in which the HR manager had been recruited from elsewhere were assigned the value 0.

**Subsidiary ownership.** A dummy was created which ascribed the value 1 to subsidiaries that were established as joint ventures and the value 0 to those that were not. Following Makino and Beamish (1998), we used 80% MNC equity share as a cut-off point between wholly-owned units and joint ventures.

### *4.2.3. Control variables*

The first of two control variables included in the regression model was MNC experience in China. There is conflicting evidence regarding whether MNCs with more experience in a host country, and thus older subsidiaries, pursue greater or lesser HRM integration. Whilst older subsidiaries have been shown to employ more localized HRM practices due to their greater embeddedness in the host context (Rosenzweig & Nohria, 1994) and their more change-resistant organizational cultures (Myloni et al., 2004), empirical research also shows that after setting up a unit abroad, MNCs enter a 'strategic investor' phase characterized by the tighter integration of business (e.g. HRM) practices within the unit (Braun & Warner, 2002). This latter pattern of greater HRM integration over time is argued by Schuler et al. (1993) to be the result of a learning process about how to operate in foreign markets that comes with prolonged international experience. MNC experience in China was operationalized as the number of years since the MNC established its first subsidiary or joint venture in China.

Secondly, we controlled for MNC home region since the MNC country of origin has been shown to influence the use of control mechanisms (e.g., Harzing, 1999; Harzing & Sorge, 2003). A dummy variable was created where non-Nordic MNCs were given the value 0 and Nordic MNCs the value 1. This classification was adopted due to the slightly skewed composition of the final sample and acknowledgement that the Nordic management style (see e.g., Lindell & Arvonen, 1996; Smith et al., 2003) might produce a country-of-origin effect.

## 5. Results

### *5.1.Antecedents of HRM integration mechanism usage*

Descriptive statistics and a correlation matrix of all the variables in the study are presented in Table 2. There were no correlations exceeding .90 in the model, which would have been an indication of substantial collinearity (Hair, Anderson, Tatham, & Black, 1998). Variance inflation factor (VIF) values were low, between 1.130 and 2.156. This also suggests that there was no serious problem with collinearity in the regression model.

**Table 2.** Means, standard deviations and Pearson correlations

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Means | 3.35 | 5.26 | 20.49 | 3.64 | 1.67 | 6.71 | 0.60 | 0.20 | 0.80 | 10.45 |
| sd | 1.25 | 1.65 | 21.22 | 1.54 | 1.28 | 2.20 | 0.49 | 0.40 | 0.40 | 8.39 |
| 1. HRM integration mechanisms | | | | | | | | | | |
| 2. Subsidiary size (log *n* no. employees) | .08 | | | | | | | | | |
| 3. Interdependence (within-MNC sales/purchases) | -.06 | .01 | | | | | | | | |
| 4. Subsidiary operations (labor-capital intensity) | .18 | .18 | -.00 | | | | | | | |
| 5. Number of expatriates (log *n*) | .39** | .62*** | -.13 | .03 | | | | | | |
| 6. MNC size (log *n* turnover) | .26* | .29* | -.09 | -.08 | .43*** | | | | | |
| 7. Background of subsidiary HR manager (0=other, 1=MNC) | -.01 | -.05 | .16 | -.10 | .04 | -.07 | | | | |
| 8. Subsidiary ownership (0=not JV, 1=JV) | -.05 | .35** | -.16 | .16 | .13 | .22 | -.34** | | | |
| 9. MNC home region (0=non-Nordic, 1=Nordic) | .08 | -.40** | .10 | -.20 | -.21 | -.24* | .34** | -.25* | | |
| 10. MNC experience in China (years) | .22 | .31** | -.25* | -.07 | .36** | .35** | -.09 | .14 | -.21 | |

All two-tailed tests. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The bivariate correlations show that the number of expatriates and the size of the MNC are positively related to the use of HRM integration mechanisms by the parent. Other correlations worth noting are that MNCs with more experience of operating in China are larger, have larger Chinese subsidiaries, and employ greater numbers of expatriates within them. In addition, Nordic MNCs tend to be smaller with smaller Chinese subsidiaries, and are more likely to have recruited the subsidiary HR manager from within the MNC or from another MNC.

The hypotheses were tested using OLS multiple regression analysis. The statistical program used was SPSS 16.0. Table 3 presents the results of the regression model with the use of parent HRM integration mechanisms as the dependent variable. In order to separate the effects of the control variables and the independent variables two models were estimated; one baseline model in which only the control variables were included, and one full model in which the independent and control variables were included. Whereas the baseline model was marginally significant ($F = 2.566$, $p < 0.1$), the full model was significant ($F = 2.707$, $p < 0.05$) and explained over 30 percent of the variance in the use of HRM integration mechanisms.

Turning first to the hypotheses that concern HRM integration motives, the results produced a marginally significant relationship between subsidiary size and the use of HRM integration mechanisms, but it was in the opposite direction ($\beta = -0.287$, $p < 0.10$). Hypothesis 1 was therefore not supported. Hypothesis 2 that predicted a positive relationship between subsidiary-MNC interdependence and the use of HRM integration mechanisms was not supported by the results ($\beta = 0.032$, $p > 0.10$). Support was found, however, for Hypothesis 3 since more capital-intensive subsidiary operations were significantly related to the greater use of HRM integration mechanisms ($\beta = 0.293$, $p < 0.05$).

With regards to the hypotheses concerning the ability of MNCs to integrate foreign subsidiaries, a larger number of expatriates was positively related to HRM integration mechanism usage ($\beta = 0.511$, $p < 0.01$). Hypothesis 4 was therefore supported. The size of the MNC, on the other hand, was not positively related to the use of HRM integration mechanisms ($\beta = 0.136$, $p > 0.10$). Thus, Hypothesis 5 was not supported. The background of the subsidiary HR manager was not shown to affect mechanism usage ($\beta = -0.132$, $p > 0.10$). Hypothesis 6 therefore could not be supported. Lastly, Hypothesis 7 regarding subsidiary

**Table 3**
Regressions on the use of HRM integration mechanisms

| | Model 1. Controls only | | | Model 2. Full model | | |
|---|---|---|---|---|---|---|
| | β | Std. error | *t*-statistic | β | Std. error | *t*-statistic |
| Subsidiary size (log *n* no. employees) | | | | -0.287 | 0.129 | -1.729† |
| Interdependence (within-MNC sales/purchases) | | | | 0.032 | 0.007 | 0.268 |
| Subsidiary operations (labor-capital intensity) | | | | 0.293 | 0.099 | 2.439* |
| Number of expatriates (log *n*) | | | | 0.511 | 0.164 | 3.129** |
| MNC size (log *n* turnover) | | | | 0.136 | 0.077 | 1.016 |
| Background of subsidiary HR manager (0 = other, 1 = MNC) | | | | -0.132 | 0.341 | -1.012 |
| Subsidiary ownership (0 = not JV, 1 = JV) | | | | -0.101 | 0.432 | -0.745 |
| MNC home region (0 = non-Nordic, 1 = Nordic) | 0.135 | 0.361 | 1.156 | 0.163 | 0.434 | 1.235 |
| MNC experience in China (years) | 0.250 | 0.017 | 2.147* | 0.136 | 0.020 | 1.038 |
| $R^2$ | 0.067 | | | 0.311 | | |
| Adjusted $R^2$ | 0.041 | | | 0.196 | | |
| F | 2.566† | | | 2.707* | | |
| sig. | 0.084 | | | 0.011 | | |

All two-tailed tests. † p<.10, *p<.05, **p<.01

ownership was not significantly related to mechanism usage ($\beta = -0.101$, $p > 0.10$) and thus did not find support.

Regarding the control variables, and when included in the full model, neither home region ($\beta = 0.163$, $p > 0.10$) nor MNC experience in China ($\beta = 0.136$, $p > 0.10$) were shown to affect significantly HRM integration mechanism usage.

*5.2.Antecedents by mechanism type*

OLS multiple regression analyses were conducted with the three mechanism types as dependent variables. The results of the analyses are presented in Table 4. In terms of people-based mechanisms of HRM integration ($F = 2.438$, $p < 0.05$), the significant antecedents were shown to be broadly similar to those for integration mechanisms as a whole insofar as people-based integration mechanisms are more common in more capital intensive subsidiaries with more expatriates. The notable exception is the significantly lesser use of people-based integration mechanisms in subsidiaries that have recruited the HR manager from within the MNC or from another MNC. With respect to formalization-/information-based mechanisms ($F = 2.684$, $p < 0.05$) the same antecedents as above of subsidiary operations and number of expatriates are shown to be antecedents, but the background of the HR manager is no longer significant. Instead, the use of formalization-/information-based HRM integration mechanisms is more extensive in larger MNCs. The model concerning the use of centralization to integrate HRM in foreign subsidiaries was not significant ($F = 1.557$, $p > 0.10$) with only the number of expatriates appearing as positively and significantly related. These findings together with the results of the hypotheses are discussed next.

**Table 4**
Regressions on the use of people-, formalization-/information- and centralization-based HRM integration mechanisms

| Variables | Model 3. People-based | | | Model 4. Formalization-/information-based | | | Model 5. Centralization-based | | |
|---|---|---|---|---|---|---|---|---|---|
| | β | Std. error | *t*-statistic | β | Std. error | *t*-statistic | β | Std. error | *t*-statistic |
| Subsidiary size | -0.274 | 0.157 | -1.625 | -0.277 | 0.148 | -1.669 | -0.210 | 0.133 | -1.177 |
| Interdependence | -0.015 | 0.009 | -0.120 | 0.038 | 0.008 | 0.311 | 0.074 | 0.008 | 0.571 |
| Subsidiary operations | 0.318 | 0.121 | 2.606* | 0.264 | 0.114 | 2.198* | 0.206 | 0.103 | 1.594 |
| Number of expatriates (log.) | 0.451 | 0.199 | 2.721** | 0.449 | 0.189 | 2.746** | 0.438 | 0.169 | 2.498* |
| MNC size (log.) | 0.074 | 0.093 | 0.539 | 0.244 | 0.088 | 1.815† | 0.022 | 0.079 | 0.153 |
| Background of subsidiary HR mgr | -0.271 | 0.416 | -2.041* | -0.035 | 0.393 | -0.271 | -0.023 | 0.353 | -0.162 |
| Subsidiary ownership | -0.122 | 0.526 | -0.886 | -0.092 | 0.498 | -0.682 | -0.079 | 0.447 | -0.543 |
| MNC home region | 0.134 | 0.528 | 0.998 | 0.173 | 0.500 | 1.312 | 0.118 | 0.449 | 0.834 |
| MNC experience in China | 0.110 | 0.024 | 0.823 | 0.127 | 0.023 | 0.969 | 0.173 | 0.021 | 1.225 |
| $R^2$ | 0.289 | | | 0.309 | | | 0.206 | | |
| Adjusted $R^2$ | 0.170 | | | 0.194 | | | 0.074 | | |
| F | 2.438* | | | 2.684* | | | 1.557 | | |
| sig. | 0.021 | | | 0.012 | | | 0.152 | | |

All two-tailed tests: † p<.10, * p < 0.05, ** p < 0.01

## 6. Discussion and implications

The present study sought to shed light on the antecedents of HRM integration mechanism usage in MNCs and to establish whether different mechanism types have different antecedents. Based on a sample of 76 European-owned subsidiaries in China, the findings show that the two most significant antecedents are the greater presence of expatriates in the subsidiary and the capital intensity of its operations. A similar picture emerges across different mechanism types, except that people-based mechanisms are used less when the subsidiary HR Manager has experience of working in an MNC, and formalization-/information-based mechanisms are used more in larger MNCs.

The capital intensity of subsidiary operations was the only motivation-based antecedent of HRM mechanisms usage supported in this study. One might explain this as being due to the complex nature of headquarters-subsidiary relations, which Ghoshal and Nohria (1989) describe as a mixed-motive dyad where the two parties have both interdependent and independent interests. Indeed, it remains somewhat ambiguous which of the two competing explanations for the effects of interdependence (the resource-based and power dependency views) is more dominant. That is to say, a subsidiary's possession of strategically valuable resources and/or its 'network centrality' render it both a more attractive target for integration, whilst at the same time handing it a source of power with which to negotiate more autonomy (Ambos & Schlegelmilch, 2007). Although the subsidiary operations antecedent in our study supports the resource-based view, the unexpected negative relationship between subsidiary size and HRM integration mechanism usage better fits the power dependency view, namely that smaller subsidiaries have fewer resources to draw from in resisting attempts at parent-driven HRM integration (e.g., Taylor et al., 1996; Ferner et al., 2004). At least based on our findings, it would appear that the strategic role of the subsidiary does not translate easily into implications for HRM integration mechanism usage.

The presence of expatriates was the only ability-based antecedent of HRM mechanism usage to be supported. Whilst expatriates themselves have been described as instrumental in HRM integration efforts in foreign subsidiaries (e.g. Hetrick, 2002; Gamble, 2003), the study's findings indicate their additional significance in facilitating other forms of parent-driven integration. This would seem to suggest that expatriates are not only a personal, direct form of integration (Harzing & Sorge, 2003), but are also pivotal in the use of the other impersonal, bureaucratic and indirect forms of HRM integration. This finding has

implications for at least two issues in the field of MNC integration that have lacked empirical research. The first is the relationship between different integration mechanisms. Whilst the connections between different mechanisms have been debated, these interactions have been understated in empirical studies (Ferner, 2000). Regarding the fundamental question of whether integration mechanisms are complements or substitutes, our results provide support for the answer of complements (see also e.g., Harzing, 1999; O'Donnell, 2000) and the 'systems' approach to global integration (Kim et al., 2003), but clearly more detailed research is warranted on the precise nature of such complementarities. The second issue concerns the role of expatriates as individuals. In their review of research on centralization and autonomy, Young and Tavares (2004) point out that relatively little is known about the effects of subsidiary managers' characteristics, roles and status on the desire for and achievement of subsidiary autonomy (or integration). In the same way that the level of importance attached to HRM by an MNC's top management is linked to the transfer of HRM practices to foreign subsidiaries (e.g., Myloni et al., 2007), the level of importance attached to HRM by expatriate managers may, for instance, help to explain integration mechanism usage as well as HRM integration outcomes.

Reinforcing the need to take into account the characteristics of subsidiary managers, the background of the HR manager was a significant predictor of people-based HRM integration, albeit demonstrating an unexpected negative relationship. Our results indicate that HR managers with no previous experience of working in MNCs (neither within their current firm nor others) have more people-based contact with corporate headquarters concerning HRM issues. Based on recent studies on HRM in MNC subsidiaries in China (see e.g., Björkman & Lu, 1999; Sumelius et al., in press), one possible explanation is that HR managers who have been working for MNCs in China place more importance on and are in more involved in personal networks with HR managers from other MNCs. In other words, when sharing HRM knowledge and best practices, being more active in external networks as opposed to corporate networks is perceived as a more effective way to develop appropriate HRM practices. Since network embeddedness has been shown to affect the use of centralization-based integration (e.g., Andersson & Forsgren, 1996), perceptions of subsidiary HR managers regarding which kinds of networks are more rewarding could have important implications for HRM integration. Another possibility is that headquarters HR managers perceive that the use of person-based mechanisms is particularly important when subsidiary HR managers are recruited from local organizations. Face-to-face meetings help when sharing tacit knowledge,

such as the use of corporate HRM practices, and may also be instrumental in persuading local managers about the advantages in adopting MNC practices. More research is clearly needed to shed further light on this unexpected finding.

Lastly, a larger MNC was shown to be an antecedent condition for the greater use of formalization-/ information-based integration mechanisms, i.e. the use of global HRM policies, rules and guidelines as well as the provision of HR information via electronic databases and integrated HR information systems. One explanation for this could be that the high investment costs involved in using these forms of integration, especially HR information systems, make them feasible options for only the larger MNCs. Alternatively, larger MNCs that have greater numbers of globally dispersed foreign units may be forced to place greater emphasis on impersonal, bureaucratic forms of integration that can be applied universally to achieve scale efficiencies.

## 7. Limitations and suggestions for future research

The study's findings must be viewed in light of its limitations, which if addressed open up interesting avenues for future research. Although the study focused on universal and not contextual antecedents of HRM integration mechanism usage, it is possible that the findings at least partly reflect the peculiarities of the Chinese host institutional environment, especially given the reported effects that the host-country can have on HRM integration mechanism usage (Gomez & Sanchez, 2005; Fenton-O'Creevy, Gooderham, & Nordhaug, 2008). More research is thus needed in other host settings in order to corroborate the present study's findings.

The study did not include MNC strategy (cf., Gomez & Sanchez, 2005) or the top management's strategic international HRM orientation (see e.g., Taylor et al., 1996; Myloni et al., 2007). Inclusion of such variables would require responses from MNC headquarters representatives, which would have provided an important balancing dimension to the study's otherwise exclusive adoption of the subsidiary perspective. This is argued to be much needed in studies of HRM in MNC subsidiaries which rarely combine the two perspectives (Mitsuhashi et al., 2000).

Whilst a better understanding of the antecedents of HRM integration mechanism usage is important, it does not allow us to draw any conclusions regarding the effectiveness of the mechanisms themselves in achieving various HRM integration-related outcomes. Future studies could therefore build on studies of mechanism antecedents to include outcome variables such as perceived integration effectiveness and economic performance (see e.g., Kim et al, 2003), or the extent of HRM practice implementation and internalization (see e.g., Kostova & Roth, 2002).

Lastly, the study's methodology did not allow us to capture the micro-political dimension of parent-subsidiary relations that has been shown to influence the use of and responses to various forms of HRM integration (e.g., Martin & Beaumont, 1998; Ferner et al., 2004). A deeper understanding of the interdependent and independent interests of subsidiaries and headquarters, and how these influence patterns of HRM integration mechanism usage will undoubtedly require more in-depth case study research.

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**Paper 4**

**Sumelius, J., Björkman, I. & Smale, A.**

**The influence of internal and external social networks on HRM capabilities in MNC subsidiaries in China**

*The International Journal of Human Resource Management*,
Vol. 19, No. 12, December 2008, 2294–2310

Routledge
Taylor & Francis Group

# The influence of internal and external social networks on HRM capabilities in MNC subsidiaries in China

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In this study we examine the influence of involvement in internal and external social networks on HRM capabilities. We distinguish between technical and strategic HRM capabilities and focus on the capabilities of the HR department relating to four HRM practices – recruitment and selection, training and development, compensation, and performance appraisal. The study is based on data from dual respondents, general managers and HR managers, in 66 European MNC subsidiaries located in China. The results indicate that contact with other MNCs in China regarding HRM issues is positively associated with both technical and strategic HRM capabilities whereas contact with local Chinese companies does not have any significant influence on either strategic or technical HRM capabilities. Contact with MNC headquarters is positively associated with strategic HRM capabilities.

**Keywords:** China; HRM capabilities; MNC subsidiary; social networks

## Introduction

While several studies have examined HRM practices in MNC subsidiaries and their extent of global standardization or local adaptation (Rosenzweig and Nohria 1994; Björkman and Lu 2001; Hetrick 2002; Gamble 2003), there exists considerably less research regarding how the *capabilities* of the HR department are created in MNC subsidiaries. Many scholars have argued that developing the capabilities to create and renew HRM practices is a potential source of competitive advantage for MNCs (Ulrich, Brockbank, Yeung and Lake 1995) and that the discussion regarding the development of subsidiary HRM practices has to be widened to include the question of capabilities, i.e. how HRM practices are created and integrated in MNCs (Morris, Snell and Wright 2006). In addition, various scholars posit that there is a need for a greater understanding of the way in which things get done in HRM (Huselid, Jackson and Schuler 1997; Truss and Gill 2005).

According to Ulrich et al. (1995), one interesting and under-explored aspect of HRM capabilities is the source of these capabilities. In this respect, there have been calls for more research on the role of social networks/capital in connection with the development of subsidiary capabilities (Subramaniam and Youndt 2005; Truss and Gill 2005). Various scholars have suggested that one of the major benefits of being involved in social networks is that they enable access to new knowledge sources (Nahapiet and Ghoshal 1998; Gargiulo and Benassi 2000; Hansen 2002; Tregaskis 2003).

In light of this, the present study aims to examine the influence of involvement in internal and external social networks on technical and strategic HRM capabilities in MNC subsidiaries. We adopt a subsidiary perspective and the context is Chinese subsidiaries of European MNCs located in the Beijing and Shanghai areas. With regards to external networks, we distinguish

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ISSN 0958-5192 print/ISSN 1466-4399 online
© 2008 Taylor & Francis
DOI: 10.1080/09585190802479538
http://www.informaworld.com

between contacts with other MNCs and contacts with local Chinese companies. Internally, the focus is on the networks that the subsidiary has with MNC headquarters. Furthermore, we distinguish between technical and strategic HRM capabilities and focus on the capabilities of the HR department relating to four HRM practices – recruitment and selection, training and development, compensation, and performance appraisal. The empirical base of our study consists of dual respondent data collected through structured, face-to-face interviews with HR and general managers in 66 subsidiaries.

## Subsidiary HRM capabilities

In this study a capability is conceptualized as an individual's ability to use his/her knowledge and skills for a designated purpose. Although previous research has conceptualized HRM competencies or capabilities in varying ways, there is consensus that some HRM capabilities relate to more functional, operational aspects of HRM while others are associated with the link between HRM and the business strategies of the firm. For instance, Ulrich et al. (1995) identify three different HRM competencies: knowledge of the business, functional expertise, and management of change. They argue that these competencies contribute to the perceived effectiveness of the HR function. Knowledge of the business or understanding how the business operates is necessary in order to be able to adapt HRM activities accordingly. Functional expertise implies developing, implementing and maintaining appropriate HRM practices that create and sustain competitive advantage. Managing change refers to ensuring that the rate of internal change has to match the rate of change in the external environment.

In contrast to Ulrich et al. (1995), we argue that knowledge of the business and functional expertise constitute two core groups of HRM capabilities, whereas the management of change is an inherent aspect of both of these groups. This is in line with Huselid et al. (1997), who distinguish between two kinds of HRM capabilities – professional and business-related. Professional HRM capabilities are connected to the delivery of traditional HRM practices such as recruitment, compensation, etc., while business-related capabilities are related to understanding the business and implementing competitive strategy. Huselid et al. (1997) argue that business-related HRM capabilities, which generally tend to be more underdeveloped in firms than professional capabilities, carry the greatest potential in terms of economic opportunity. However, as Ulrich (1997) points out, a prerequisite for HRM professionals playing strategic roles is that the administrative/operational work is performed efficiently.

Thus, building on the work of Huselid et al. (1997), we identify two kinds of subsidiary HRM capabilities – technical and strategic. Technical HRM capability is defined as 'The ability to develop, implement and maintain appropriate activities related to traditional HRM practices in the subsidiary such as compensation, training, performance appraisal and recruitment'. Strategic HRM capability is defined as 'The ability to align the subsidiary's HRM activities with the business strategies of the firm'.

Although previous research has examined HRM capabilities in terms of their structure and content, our understanding is still limited regarding the sources of HRM capabilities and how they can best be developed (Ulrich et al. 1995; Roehling et al. 2005). Therefore, more research is needed to clarify how HRM professionals acquire new knowledge regarding HRM, and how ideas and best practices are shared within firms and among firms. Truss and Gill (2005) posit that HRM processes arise from interactions with other actors both inside and outside the organization. Similarly, various authors (e.g. Ulrich and Lake 1990; Harris, Brewster and Sparrow 2003) argue that in order for HRM professionals to further the development of organizational capabilities, including HRM capabilities, it is crucial that they build networks both inside and outside the organization.

In the Chinese context, starting from the mid 1990s, HRM has evolved from being strongly associated with traditional Chinese personnel practices to becoming more oriented towards the Western concept of HRM (Braun and Warner 2002). However, Ding and Warner (2001) found that MNC subsidiaries in China were likely to use a hybrid HRM system rather than simply adopting the HRM practices of their parent MNC. Similarly, Björkman, Smale, Sumelius, Suutari and Lu (2007) studied HRM practices in Chinese subsidiaries of European MNCs during a 10-year period and found that they increasingly resembled both MNC and host country practices, the latter having become considerably more similar to MNC practices during 1996–2006. These findings illustrate the need for MNC subsidiaries in China both to locally adapt and globally integrate their HRM practices. Both MNC-internal and -external social networks are likely to be important in achieving this balance. We will now proceed to discuss social networks in connection with subsidiary HRM capabilities.

## Social networks and subsidiary HRM capabilities

Lengnick-Hall and Lengnick-Hall (2003) posit that an organization's network of relationships that consists of both internal and external contacts creates a system that makes ideas and information accessible to those who need it when they need it. Similarly, Scott (1990) argues that embeddedness in a network of social relations can provide information about innovations, helpful hints for implementation, and support for adoption. The benefit of being involved in internal and external social networks has been termed social capital, and Nahapiet and Ghoshal (1998) suggest that it is comprised of three dimensions – structural, relational and cognitive. Since our focus in this study relates primarily to the structural dimension of social capital we choose to define it in line with Lengnick-Hall and Lengnick-Hall (2003, p. 54) who refer to it as 'the web of relationships among employees and groups (both inside and outside of the organisation) that provides information, helps solve problems, expands customer bases, and does other things that add value and enhance strategic capability'.

Social networks vary in terms of their breadth and depth (Lengnick-Hall and Lengnick-Hall 2006), so that some social networks consist of long-lasting, personal relationships, while others comprise a broader range of contacts that are more superficial. Involvement in different kinds of social networks is likely to require a lot of time and effort since building relationships requires a considerable amount of face-to-face contact (Harris et al. 2003), yet it has the potential to contribute to the development of new ideas and knowledge in different ways. In-depth relationships may produce benefits in terms of increased trust which can, for instance, enable the sharing of sensitive information. More superficial acquaintances via social networks different from those in one's own organization, on the other hand, can provide access to new knowledge and ideas and extend the potential range of information available (Hansen 1999; Inkpen and Tsang 2005).

Adler and Kwon (2002) argue that previous research on social networks and social capital has had a tendency to focus on either internal or external aspects but that few studies include both. One exception is Tregaskis (2003) who studied intra- and inter-organizational learning networks in MNCs at the local and international level. She found that local networks, both internal and external, were used to generate new knowledge with the potential to contribute to the subsidiary's competitive advantage. Furthermore, while internal international networks were used to receive and transfer existing knowledge resources within the MNC, external international networks were hardly used at all. However, in general there exists considerably less research on internal-external networks and their large potential for creating social capital (Lengnick-Hall and Lengnick-Hall 2003).

Instead internal networks have generally been the primary focus of previous HRM research. Harvey, Novicevic and Garrison (2005) argued for the importance of social capital in connection with internal global teamwork, and similarly Harris et al. (2003) posited that global expertise

networks that provide common internal HRM services within the MNC require the involvement of HRM professionals in social networks in order to create this expertise. Yeung, Woolcock and Sullivan (1996) emphasized the importance of internal peer learning networks, in which HRM professionals within the company get together once a month to review each others work and discuss and consult with each other regarding common problems and challenges. Björkman and Lervik (2007) examined conceptually the connection between different aspects of intra-organizational social capital and the implementation, internalization and integration of MNC headquarters' HRM practices in the subsidiary.

Next we develop our hypotheses regarding the influence of external and internal social networks on technical and strategic subsidiary HRM capabilities.

## Hypotheses

### *External social networks*

Contact with other organizations constitutes an important source of knowledge that is critical for the development and renewal of the subsidiary's current knowledge base since it provides an opportunity to access resources that are not available internally (Dyer and Singh 1998; Tregaskis 2003). In addition to providing access to new knowledge, contact with others in similar positions outside the organization can help to legitimize ideas within one's own organization (Subramaniam and Youndt 2005). Participation in external social networks does not only serve as a way of gaining access to new knowledge and ideas but also as a means of verifying the value and usability of one's own ideas before putting them into action, which is likely to influence the level of HRM capabilities required for the implementation of suitable practices.

In uncertain, rapidly developing environments such as the Chinese institutional and business environment, organizations are likely to try to learn from other, particularly successful organizations whose practices seem to be effective and suitable in their environment (Guler, Guillén and MacPherson 2002). Past research has argued that organizations tend to observe the activities of other organizations with which they share similar traits such as, for example, size or age (Schoonhoven, Eisenhardt and Lyman 1990; Haveman 1993) and that similar organizations tend to influence each other and adopt similar patterns of behaviour (Coleman 1988).

The historical absence of the Western HRM concept is a characteristic of the Chinese institutional environment (Child 1994; Zhu and Warner 2000) and we argue that as a result of this the HRM activities of Western MNCs in China have been, and still are, to a large extent influenced by professional HRM networks and other Western MNCs. This is in line with the findings of Björkman and Lu (1999) who found that the participation of general managers and HR managers in China in different social and professional networks was an important way of spreading ideas about efficient HRM practices. Exchanging knowledge and experiences with other MNCs is likely to improve the subsidiary's technical capabilities by allowing access to their ideas about efficient HRM practices and advice on how to adapt those practices to the Chinese context. In addition, contact with other MNCs may influence strategic HRM capabilities by demonstrating how human resources can contribute to competitiveness and by helping to define and enhance the status of the HR function, which in China has traditionally not played a strategic role (Chow 2004). Consequently we hypothesize the following:

*Hypothesis 1a*: Contact with other MNCs in China regarding HRM issues will be positively associated with the level of technical HRM capabilities in the subsidiary.

*Hypothesis 1b*: Contact with other MNCs in China regarding HRM issues will be positively associated with the level of strategic HRM capabilities in the subsidiary.

Furthermore, we argue that MNC subsidiaries in China are in contact with local Chinese companies regarding HRM. Institutional theory posits that organizations for purposes of legitimacy become more like each other through coercive, mimetic and normative isomorphic processes (DiMaggio and Powell 1983). In the Chinese context, coercive isomorphic pressure can stem for instance from the different laws and regulations imposed by the Chinese government that the subsidiary is obliged to follow. Although local Chinese companies may not constitute the same kind of role models as other MNCs regarding HRM, it is nonetheless likely that MNCs view them as sources of knowledge and advice regarding practical issues related to the local Chinese environment that may be important for operational HRM practices. Thus, subsidiary managers will share knowledge and ideas relating to more technical aspects of HRM with managers and professionals in local Chinese companies.

However, with regard to strategic HRM capabilities we argue that MNC subsidiaries are not influenced by contact with local Chinese companies. This argument is in line with that of Arias and Guillén (1992), for instance, who studied the transfer of HRM technology between MNCs and local Ecuadorian firms and found that managers in local Ecuadorian firms and managers in MNCs constituted two separate networks with no transfer of know-how. Evans, Pucik and Barsoux (2002) argue that this is conceivable since the local firms in general are smaller and less sophisticated than MNC subsidiaries. Thus, we argue that local companies are perceived as possessing relevant strategic HRM capabilities. In light of this we hypothesize the following:

*Hypothesis 2a*: Contact with local Chinese companies regarding HRM issues will be positively associated with the level of technical HRM capabilities in the subsidiary.

*Hypothesis 2b*: Contact with local Chinese companies regarding HRM issues will not be positively associated with the level of strategic HRM capabilities in the subsidiary.

### *Internal social networks*

The ability to transfer knowledge internally is widely acknowledged to constitute one of the primary sources of competitive advantage in MNCs (Hedlund 1986; Ghoshal and Nohria 1997). The inflow of existing knowledge from other parts of the MNC to the subsidiary is a valuable way for the subsidiary to get input into the development of its own knowledge base. With regard to HRM, Harris et al. (2003) argue that knowledge traditionally has been spread within the organization by HRM professionals getting together and talking to each other, thereby sharing ideas and best practices. They further posit that global networking among HRM professionals in different parts of the organization is important for the development of their own HRM capabilities. Although many organizations have HRM knowledge available on intranets and knowledge management systems, the exchange of knowledge and ideas that increase the level of HRM capabilities requires personal and face-to-face contact through involvement in social networks (Harris et al. 2003). Similarly Wolf (1997) argues that people-based contact between managers helps them develop their ideas and capabilities since it enables clarifying issues through discussion and debate, something which is not possible when transferring knowledge and ideas through formalization or information-based mechanisms even though they in principle provide access to the same information.

In the same way that subsidiaries look externally to other MNCs regarding what practices to implement in China and how to do this, subsidiaries also tend to adopt existing models within their own organization. Björkman and Lu (2001) argue that the uncertainty of managers, foreign managers in particular, regarding the suitability and efficiency of different HRM practices in the Chinese context has resulted in that many have turned to their own parent organization for

models and guidance in developing subsidiary HRM practices. In addition to providing access to new knowledge and ideas, contact with MNC headquarters has the potential to contribute to the subsidiary's absorptive capacity. Absorptive capacity implies that what an organization is able to learn is influenced by what it already knows (Cohen and Levinthal 1990).

Contact with headquarters provides the subsidiary with access to the MNC's corporate repository of knowledge concerning various HRM practices, as well as insights and suggestions concerning how the HR department can contribute to the subsidiary developing and achieving its business goals. This, however, requires the existence of social connections that enable the sharing of knowledge within the MNC. Szulanski (1996) found that one of the biggest barriers to the internal transfer of knowledge was an arduous relationship between the parties involved, which highlights the importance of social networks for accessing knowledge with the potential of subsequently contributing to the enhancement of subsidiary HRM capabilities. Accordingly, we propose the following hypotheses:

*Hypothesis 3a*: Contact with HQ through people-based mechanisms to discuss HRM issues will be positively associated with the level of technical HRM capabilities in the subsidiary.

*Hypothesis 3b*: Contact with HQ through people-based mechanisms to discuss HRM issues will be positively associated with the level of strategic HRM capabilities in the subsidiary.

## Methods

### *Data collection and sample*

The empirical base of this study consists of questionnaire data collected in face-to-face interviews[1] in European MNC subsidiaries in China. The subsidiaries were located primarily in the Beijing and Shanghai areas. Data collection was carried out between November 2005 and October 2006. Wherever possible, data were collected from two people in each target subsidiary; the general manager and the HR manager (or the most senior person responsible for HRM in the focal unit) resulting in a total of 161 responses from 87 companies. The total number of companies contacted was 311 giving a response rate of 28%. Due to missing values, and since both the HR and general managers were not available from every subsidiary, the final sample used in this study is 66 companies.

Data collection began with compiling lists of foreign-owned subsidiaries from the European Chamber of Commerce in China and various European embassies and trade councils. In addition to this contacts were gathered through the snowballing method and by using the authors' existing contacts. In most cases an email describing the project, assuring the confidentiality of the responses, and requesting an interview opportunity was sent to the subsidiary general managers. In cases where the HR managers' contact information was available the HR manager was also directly contacted by email, otherwise the general manager provided the contact details of the HR manager. Interviews were scheduled in subsequent emails or by telephone.

The interviews were structured so that the interviewer and respondent first completed a standardized, pre-tested questionnaire together. The questionnaire was in English and the language used during the interviews was English, Swedish, or Finnish. The completion of the questionnaire, which generally took between 20 and 60 minutes, was followed by a semi-structured interview during which certain topics from the questionnaire were discussed in greater detail. The current study is based solely on the questionnaire data. See Table 1 for characteristics of the sample subsidiaries.

Table 1. Sample characteristics of data.

| *N* = 66 | *Category* | % |
|---|---|---|
| Subsidiary size (no. employees) | < 100 | 33.3 |
| | 100 < 500 | 42.4 |
| | 500 < 1,000 | 6.1 |
| | > 1,000 | 18.2 |
| Number of expatriates | 0–1 | 3.0 |
| | 2–4 | 48.5 |
| | 5–10 | 25.8 |
| | > 11 | 22.7 |
| Mode of establishment | Continuing ongoing operations | 19.7 |
| | *Partly* continuing ongoing operations | 10.6 |
| | Starting from scratch | 69.7 |
| Joint venture | Yes | 18.2 |
| | No | 81.8 |
| Size of HR department (no. of people in HR) | 0–1 | 21.2 |
| | 2–4 | 53.0 |
| | 5–10 | 12.1 |
| | > 11 | 13.6 |
| Background of HR manager (place of recruitment) | Another MNC | 44.6 |
| | A Chinese, company, school, university | 26.2 |
| | Another Chinese unit of the MNC | 15.4 |
| | Abroad | 6.2 |
| | Other | 7.7 |
| Average subsidiary age | Years in the MNC | 7.81 |

Recently calls have been made for more studies within international business research to include multiple respondents in surveys as it serves to improve the validity of reported relationships (Yang, Wang and Su 2006). For instance, Podsakoff, MacKenzie, Lee and Podsakoff (2003) argue that the use of single respondents, i.e. having the same respondent answer questions that are used to create the dependent variable and questions that are used to create the independent variables is a potentially serious source of common method bias. Using single respondents in the current study would be particularly problematic since it would entail operationalizing the dependent variables based on responses from the HR managers regarding their own HRM capabilities. On the other hand, HR managers' responses are valuable regarding the social networks in which HRM issues are discussed since they are likely to be the most knowledgeable individuals in this regard.

Thus, we drew our dependent and independent variables from different sources. Consequently, our dependent variables are operationalized based on responses from subsidiary general managers whereas we used responses from subsidiary HR managers to construct our independent variables. We used Varimax rotated factor analysis to test the discriminant validity of our dependent variables, and the analysis revealed two factors with Eigenvalues over 1. The first factor (technical HRM capabilities) explained 51.4% of the variance and the second one (strategic HRM capabilities) explained 14.9%. The factor loadings ranged from .562 to .909 for factor 1 and from .592 to .811 for factor 2. There was one significant cross-loading in factor 1 with the value .506 which exceeds the .50 level that Hair, Anderson, Tatham and Black (1998) suggest in order for loadings to be considered practically significant. However, based on theoretical arguments we decided to maintain our distinction between technical and strategic HRM capabilities.

***Dependent variables***

*Technical HRM capabilities*

To measure technical HRM capabilities we asked general managers to rate the current capabilities of the HR department in developing, implementing, and maintaining appropriate: i) recruitment and selection processes; ii) training and development programmes; iii) compensation systems; and iv) performance appraisal systems. The questions, which are similar to those used by Mitsuhashi, Park, Wright and Chua (2000), were answered on a 5-point Likert scale where 1 = 'poor' and 5 = 'excellent'. The reliability value (Cronbach's alpha) for this construct was 0.78.

*Strategic HRM capabilities*

To measure strategic HRM capabilities we asked general managers to rate the extent to which the HR department is: i) involved in the strategic planning process; ii) responsible for achieving current and future business goals; and iii) viewed by those outside the function as partners in the management of business and agents for change. These questions were adapted from previous studies (Becker and Huselid 1998; Mitsuhashi et al. 2000), and answered on a 5-point Likert scale where 1 = 'not at all' and 5 = 'very much'. The Cronbach's alpha value for this construct was 0.80.

***Independent variables***

*Contact with other MNCs*

In order to determine the contact with peers in other MNCs we asked subsidiary HR managers to indicate the extent to which they agreed that subsidiary managers and professionals had engaged in discussions on HRM issues with colleagues from other MNCs in: i) business-related meetings; ii) personal contact; and iii) professional organizations/committees. The questions were answered on a 7-point Likert scale where 1 = 'do not agree' and 7 = 'entirely agree'. This measure, which is based on Kim, Park, and Prescott's (2003) operationalization of the people-based integration mode, had a Cronbach's alpha value of 0.82.

*Contact with local Chinese companies*

Similar to the contact with other MNCs, we asked subsidiary HR managers to indicate the extent to which subsidiary managers and professionals had engaged in discussions on HRM issues with colleagues from local Chinese companies in: i) business-related meetings; ii) personal contact; and iii) professional organizations/committees. The questions were answered on a 7-point Likert scale where 1 = 'do not agree' and 7 = 'entirely agree'. The Cronbach's alpha value for this construct was 0.80.

*People-based contact with headquarters*

To operationalize the extent of interaction with peers at headquarters we asked subsidiary HR managers to indicate the extent to which HRM practices and policies are discussed with colleagues from headquarters in: i) business-related meetings; ii) personal contact; and iii) professional organizations/committees. These questions were adapted from Kim et al. (2003). Respondents answered these questions separately on a 7-point Likert scale where 1 = 'do not agree' and 7 = 'entirely agree' regarding recruitment and selection, training and development, compensation, and performance appraisal. The scale is based on the average scores across the four practices. The Cronbach's alpha value for this construct was 0.94.

### *Control variables*

We included three control variables in the study. The first was *subsidiary size*. It is conventional to control for size when analysing innovation output (Cohen and Levin 1989), and Gupta and Govindarajan (2000) maintain that larger subsidiaries have a greater pool of resources dedicated to the creation of new knowledge. This means that the size of the subsidiary could positively influence the development of subsidiary HRM capabilities. We measured subsidiary size by taking the natural logarithm of the number of employees in the subsidiary in order to dampen the high variation in size and achieve a more normal distribution for the variable.

Second, we controlled for the influence of the *background of the HR manager* in terms of from where the HR manager had been recruited. Following Björkman and Lu (2001) we argue that the background of the HR manager may influence the development of HRM in the subsidiary. In the context of this study we suggest that there is a difference between managers who have a background in a local Chinese company as opposed to having experience in an international company. We argue that this difference in background is likely to affect the HR manager's concepts of legitimate HRM practices and that it in addition could influence his/her absorptive capacity, in this case meaning the base he/she has to absorb and apply new HRM knowledge. Consequently the answers were coded into a dummy variable so that companies in which the HR manager had been recruited from a Chinese company, school, or university were assigned the value 1, and companies in which the HR manager had international experience, i.e. in another Chinese unit of their own MNC, another MNC, abroad, or other, were assigned the value 0.

Third, in accordance with previous studies (Hannon, Huang and Jaw 1995; Ding, Goodall and Warner 2000; Björkman and Lu 2001) we controlled for the effect of *subsidiary ownership* by determining if the companies in our sample were joint ventures or not. We measured this by including a dummy variable where joint ventures were assigned the value 1 and non-joint ventures the value 0. Following Makino and Beamish (1998), we used 80% equity share on the part of the MNC as a cut-off point between wholly owned units and joint ventures.

## Results

Descriptive statistics and a correlation matrix of the variables in this study are presented in Table 2. There were no correlations of .90 or above in our models, which according to Hair et al. (1998) is the first indication of substantial collinearity, and the variance inflation factor (VIF) values were low, between 1.068 and 1.816 in the full models. This suggests that there is no serious collinearity problem in our models.

In Table 2 it is interesting to note that the level of contact with other MNCs is substantially higher than the level of contact with local companies, which in turn is higher than contact with headquarters. This is indicated by the fact that the mean value for MNC contacts is 4.72 while the corresponding values for local and headquarters contact are 3.94 and 3.51 respectively.

There are also some correlations worth noting. The strong correlation between technical and strategic HRM capabilities indicates a link between them which could be interpreted that technical HRM capabilities constitute a base for developing strategic HRM capabilities. The negative correlation between strategic/technical HRM capabilities and the background of the HR manager suggests that if the HR manager was recruited from a Chinese company, school or university this has a negative influence on both technical and strategic capabilities. Furthermore, the positive correlation between strategic/technical HRM capabilities and MNC contacts indicates a positive influence of contact with other MNCs on both types of HRM capabilities. The same can be said of the influence of people-based contact with HQ in terms of strategic HRM capabilities.

Table 2. Means, standard deviations and Pearson correlations.

| *Variables* | *Means* | *Std dev.* | *1* | *2* | *3* | *4* | *5* | *6* | *7* |
|---|---|---|---|---|---|---|---|---|---|
| 1. Subsidiary size (no. employees log) | 5.24 | 1.65 | | | | | | | |
| 2. HR manager recruited from Chinese company, school or university | 0.26 | 0.44 | .032 | | | | | | |
| 3. Joint venture (No = 0, Yes = 1) | 0.18 | 0.39 | .470*** | .261* | | | | | |
| 4. MNC contacts | 4.72 | 1.44 | .182 | −.136 | −.220 + | | | | |
| 5. Local contacts | 3.94 | 1.49 | −.398*** | .016 | −.087 | .048 | | | |
| 6. Personal-based contact with HQ | 3.51 | 1.54 | −.006 | .043 | −.100 | .143 | .169 | | |
| 7. Strategic HRM capabilities | 3.35 | 0.96 | .111 | −.277* | −.041 | .311* | .144 | .286* | |
| 8. Technical HRM capabilities | 3.53 | 0.68 | −.012 | −.336** | −.094 | .355** | .086 | .192 | .627*** |

Notes: All one-tailed tests; + $p < 0.10$; *$p < 0.05$; **$p < 0.01$; ***$p < 0.001$; variables 4, 5 and 6 measured on a 7-point Likert scale; variables 7 and 8 measured on 5-point Likert scale.

We tested our hypotheses using OLS multiple regression analysis. The statistical program used was SPSS 14.0. Table 3 presents the results of the regression model with technical HRM capabilities as the dependent variable and Table 4 presents the regression model with strategic HRM capabilities as the dependent variable. In order to separate the effects of control variables and independent variables we estimated two models in each case; one baseline model in which we included only the control variables, and one full model which in addition to the control variables also included the independent variables. We report the results of both full models relating to technical HRM capabilities ($F = 3.334$, $p < .01$) and strategic HRM capabilities ($F = 3.272$, $p < .01$).

The results showed full support for Hypothesis 1a (std $\beta = 0.341$, $p < 0.01$) according to which contact with other MNCs in China regarding HRM issues will be positively associated with the development of technical HRM capabilities in the subsidiary. Regarding Hypothesis 1b, which predicted a positive association between strategic HRM capabilities and contact with other MNCs, the results were marginally significant (std $\beta = 0.229$, $p < 0.10$).

Hypothesis 2a suggest that contact with local Chinese companies regarding HRM issues will be positively associated with the development of technical HRM capabilities in the subsidiary. We found no significant positive association (std $\beta = 0.009$, $p > 0.10$) and consequently no support for Hypothesis 2a. Contact with local Chinese companies was not shown to have any significant influence on strategic HRM capabilities, thus supporting Hypothesis 2b (std $\beta = 0.141$, $p > 0.10$).

The results did not show support for Hypothesis 3a which suggested that contact with headquarters through people-based mechanisms to discuss HRM issues will be positively associated with the development of technical HRM capabilities in the subsidiary (std $\beta = 0.170$, $p > 0.10$). However, the results for Hypothesis 3b were significant (std $\beta = 0.251$, $p < 0.05$), indicating support for the argument that contact with headquarters positively influences strategic HRM capabilities.

Among the control variables the background of the HR manager, if he/she had been recruited from a Chinese company, school or university, was significantly and negatively associated with both technical HRM capabilities (std $\beta = -0.331$, $p < 0.01$) and strategic HRM capabilities (std $\beta = -0.283$, $p < 0.05$). The other control variables, subsidiary size and whether the subsidiary was a joint venture or not, did not show any significant influence on either technical or strategic HRM capabilities.

## Discussion

This study examined the influence of involvement in internal and external social networks on HRM capabilities in European MNC subsidiaries in China. Based on dual respondent data from 66 subsidiaries our results show that the involvement of subsidiary managers in internal and external social networks has a clear influence on both technical and strategic HRM capabilities. This supports previous research that has argued for the importance of networks for the development of organizational knowledge (Tregaskis 2003).

Our results indicate that contact with other MNCs in China regarding HRM issues has a positive influence on both technical and strategic HRM capabilities, although the effect on strategic capabilities was somewhat weaker. This supports previous findings suggesting that MNC networks are an important source of knowledge in the Chinese context (Björkman and Lu 1999). Furthermore, this is consistent with the argument that MNCs are influential drivers of mimetic and normative isomorphic processes in China, regarding each other as useful benchmarks and sources of inspiration.

Table 3. Regression models (technical HRM capability as dependent variable).

| | *Model 1. Control only* | | | | *Model 2. Full model* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Beta* | *t* | *Sig.* | *VIF* | *Beta* | *t* | *Sig.* | *VIF* |
| *Control variables* | | | | | | | | |
| Subsidiary size (no. of employees log) | 0.003 | 0.020 | 0.984 | 1.299 | −0.127 | −0.837 | 0.406 | 1.816 |
| HR manager recruited from Chinese company, school or university | −0.334 | −2.678 | 0.009** | 1.086 | −0.331 | −2.807 | 0.007** | 1.097 |
| Joint venture | −0.008 | −0.060 | 0.953 | 1.393 | 0.144 | 1.005 | 0.319 | 1.633 |
| *Independent variables* | | | | | | | | |
| MNC contacts | | | | | 0.341 | 2.720 | 0.009** | 1.238 |
| Local contacts | | | | | 0.009 | 0.067 | 0.947 | 1.294 |
| Personal-based contact with HQ | | | | | 0.170 | 1.459 | 0.150 | 1.068 |
| R | 0.336 | | | | 0.503 | | | |
| $R^2$ | 0.113 | | | | 0.253 | | | |
| Adjusted $R^2$ | 0.070 | | | | 0.177 | | | |
| F | 2.629 + | | | | 3.334** | | | |
| N | 66 | | | | 66 | | | |

Notes: All two-tailed tests; + p < .10; *p < .05; **p < .01; ***p < .001.

Table 4. Regression models (strategic HRM capability as dependent variable).

| | *Model 1. Control only* | | | | *Model 2. Full model* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Beta* | *t* | *Sig.* | *VIF* | *Beta* | *t* | *Sig.* | *VIF* |
| *Control variables* | | | | | | | | |
| Subsidiary size (no. of employees log) | 0.131 | 0.951 | 0.345 | 1.299 | 0.098 | 0.642 | 0.524 | 1.816 |
| HR manager recruited from Chinese company, school or university | −0.275 | −2.179 | 0.033* | 1.086 | −0.283 | −2.399 | 0.020* | 1.097 |
| Joint venture | −0.025 | −0.175 | 0.861 | 1.393 | 0.081 | 0.561 | 0.577 | 1.633 |
| *Independent variables* | | | | | | | | |
| MNC contacts | | | | | 0.229 | 1.827 | 0.073 + | 1.238 |
| Local contacts | | | | | 0.141 | 1.100 | 0.276 | 1.294 |
| Personal-based contact with HQ | | | | | 0.251 | 2.149 | 0.036* | 1.068 |
| R | 0.303 | | | | 0.500 | | | |
| $R^2$ | 0.092 | | | | 0.250 | | | |
| Adjusted $R^2$ | 0.048 | | | | 0.173 | | | |
| F | 2.083 | | | | 3.272** | | | |
| N | 66 | | | | 66 | | | |

Notes: All two-tailed tests; + p < .10; *p < .05; **p < .01; ***p < .001.

In line with our argumentation, contact with local Chinese companies did not appear to influence strategic HRM capabilities. However, contrary to what we hypothesized, contact with local companies was not shown to have any influence on technical HRM capabilities either. Based on the results from this study it seems that the HRM capabilities of MNC subsidiaries in reality are not much affected by contact with local Chinese companies, which supports the findings of previous studies (Arias and Guillén 1992). It is probable, however, that this contact is perceived to be more valuable from the point of view of the local Chinese companies who view MNCs as role models regarding HRM (Braun and Warner 2002) and thus may be more motivated to learn from MNCs than vice versa.

Regarding internal social networks, contact with MNC headquarters was found to have a positive influence on strategic HRM capabilities. This indicates that internal input, in this case from headquarters, is an important ingredient in the level of strategic HRM capabilities demonstrated by the subsidiary. This could also be true regarding input from other parts of the MNC, which is why Wolf (1997), among others, argues that future research needs to increase the focus on lateral networks between HRM units in MNC subsidiaries. An interesting issue in this regard is the extent to which subsidiary strategic HRM capabilities can be enhanced from internal networking. Future research could explore further if the benefit of internal networks is continuous or if there is a saturation point where subsidiaries, via extensive HQ networking, achieve a certain level of strategic capability that no longer benefits from further networking.

The background of the HR manager, i.e. if he/she had been recruited from a Chinese company, school or university, showed to have a negative influence on subsidiary HRM capabilities. The explanation we present for this is that the HR manager's background in a local company means that he/she views the ways of working with HRM in local companies as legitimate in contrast to the ways of MNCs. This may hinder the level of HRM capabilities needed to enable the development of HRM practices that are suitable for the MNC. Furthermore, it is possible that HR managers with a past in local companies have a lower absorptive capacity for adopting ideas and knowledge from other MNCs simply due to lack of experience in the ways of working with HRM in international companies. A limitation of the current study in this regard is that we do not measure the HR managers' length of employment in previous positions.

This study contributes to the discussion on the development of subsidiary HRM in several ways. By incorporating HRM capabilities into this discussion it addresses the gap in previous research regarding the importance of how things are done in HRM. Furthermore, it sheds some light on the hereto scarcely studied role of social networks in connection with HRM capabilities. Another important aspect is its focus on both internal and external networks and the distinction between technical and strategic capabilities.

A limitation of this study is that it is limited to only European MNC subsidiaries located in China. More work is needed to assess the generalizability of these results, both across different institutional contexts as well as across different organizational functions. Furthermore, we do not include a HQ perspective, something which could be useful in connection with the evaluation of the subsidiary's strategic HRM capabilities, nor do we study the link between networks and performance, or effectiveness and the cost of establishing and maintaining different networks. While we focused on the structural dimension of social capital, future work could address the impact of cognitive and relational social capital which might serve to highlight the importance of the quality of interactions instead of only the quantity. In addition to this, future studies could also examine how various internal and external networks are created, including who initiates the contact, who are the key actors, the formality of the networks, and what kinds of knowledge flow in which types of networks. In this respect, the networking skills of subsidiary and HR managers and how they impact network creation and HRM capabilities warrant further research. Including other network actors such as sister units in internal networks,

instead of focusing only on the internal network between the subsidiary and headquarters, and management consultancies in external networks might also shed more light on the impact of networks in this area. Finally, the relationship between technical and strategic HRM capabilities is another topic meriting further investigation.

## Acknowledgements

We gratefully acknowledge the help of Vesa Suutari and the financial support provided by Liikesivistysrahasto.

## Note

1. Due to changes/cancellations in scheduled interview times or difficulties in finding a suitable time for face-to-face interviews, nine respondents (two HR managers and seven general managers) were interviewed over the telephone.

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**Paper 5**

**Sumelius, J.**

**Social networks and subsidiary HRM capabilities: The case of Nordic MNC subsidiaries in China**

The current issue and full text archive of this journal is available at
**www.emeraldinsight.com/0048-3486.htm**



Received 26 April 2007
Revised May 2007
Accepted 30 May 2008

# Social networks and subsidiary HRM capabilities

## The case of Nordic MNC subsidiaries in China

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### Abstract

**Purpose** – This paper seeks to examine the internal and external social networks in which subsidiary HR and general managers discuss HRM issues, and to explain how their involvement in these networks influences subsidiary HRM capabilities.

**Design/methodology/approach** – The data consist of qualitative interviews with 40 HR and general managers in 23 Nordic MNC subsidiaries in China.

**Findings** – Managers view their networks with other MNCs as being more important for developing their HRM capabilities than contact with peers in local domestic companies. Within the MNC global and regional networks were perceived as being especially useful.

**Research limitations/implications** – The interviews were conducted in Nordic MNC subsidiaries in Beijing and Shanghai. This could carry implications for the generalisability of the findings. Other limitations of the study are the sampling method and the interview language. MNCs establishing themselves in China should encourage involvement of HR and general managers in internal and external networks. External MNC networks appear to be particularly important sources of HRM knowledge and ideas. Internally more effort should be focused on helping HR managers improve their global networks.

**Originality/value** – The paper provides an in-depth description of subsidiary managers' networks, responds to calls made for more research regarding the outcomes of social capital, and addresses the gap in previous research regarding the importance of how things are done in HRM.

**Keywords** Human resource management, Social networks, Multinational companies, China

**Paper type** Research paper

### Introduction

Past research on human resource management (HRM) in multinational corporations (MNCs) has primarily focused on examining to what extent subsidiary HRM practices resemble home or host country practices (Björkman and Lu, 2001), while less attention has been directed at understanding how these practices are developed. Furthermore, scholars have called for more research on the development of HRM capabilities that enable the creation and renewal of HRM practices (Morris *et al.*, 2006). There exists widespread agreement that the development of HRM capabilities is crucial for MNCs in order to maintain a competitive advantage (Huselid *et al.*, 1997; Ulrich *et al.*, 1995).

The author gratefully acknowledges the support provided by Ingmar Björkman, Adam Smale, Vesa Suutari and Liikesivistysrahasto, as well as the helpful comments of two anonymous reviewers.

Personnel Review
Vol. 38 No. 4, 2009
pp. 380-397
© Emerald Group Publishing Limited
0048-3486
DOI 10.1108/00483480910956337

In this study a capability is conceptualised as an individual's ability to use his/her knowledge and skills for a designated purpose. Subsidiary HRM capabilities refer to the HR and general managers' ability to use their HRM knowledge and skills to integrate and reconfigure subsidiary HRM practices in a desired way. The focus in this paper is on both technical and strategic subsidiary HRM capabilities. Technical capabilities refer to the development, implementation, and maintenance of traditional HRM activities such as compensation, training, performance appraisal, and recruitment, whereas strategic HRM capabilities refer to how HRM activities are aligned with business strategy.

Although some research exists on the structure and content of HRM capabilities, our understanding is still limited regarding the sources of HRM capabilities and how they can best be developed (Roehling *et al.*, 2005). Many argue for the importance of social networks/capital for acquiring new knowledge (Nahapiet and Ghoshal, 1998; Subramaniam and Youndt, 2005). Similarly, HRM scholars have emphasised the importance of HRM professionals' involvement in both internal and external social networks for the further development of subsidiary HRM capabilities (Tregaskis, 2003).

This exploratory study has two aims:

(1) to examine the internal and external social networks in which subsidiary HR and general managers discuss HRM issues; and

(2) to explain how involvement in these networks influences the subsidiary's HRM capabilities.

The networks of HR and general managers in Chinese subsidiaries of Nordic MNCs located in Beijing and Shanghai are contrasted, and differences between MNCs examined. The focus is on capabilities related to four HRM practices:

(1) recruitment and selection;

(2) training and development;

(3) compensation; and

(4) performance appraisal.

The structure of the paper is as follows. First, previous research on subsidiary HRM capabilities and social networks is examined and after that the sample and method of data collection are described. Then the findings of the study are presented and finally the contributions of the study and its limitations are discussed, and areas for future research suggested.

## HRM capabilities and social networks in MNC subsidiaries

There appears to be general agreement in the literature that whilst some HRM capabilities[1] are more technical, others are associated with strategic aspects of HRM (Huselid *et al.*, 1997; Ulrich *et al.*, 1995). For instance, Ulrich *et al.* (1995) identify three distinct HRM competencies – knowledge of the business, functional expertise, and management of change – and argue that they contribute to the perceived effectiveness of the HR function. Huselid *et al.* (1997) distinguish between professional HRM capabilities which link to the delivery of traditional HRM practices such as recruitment, compensation, etc., and business-related HRM capabilities which are

related to understanding the business and implementing competitive strategy. Huselid *et al.* (1997) argue that business-related HRM capabilities carry the greatest potential in terms of economic opportunity but that they commonly tend to be more underdeveloped than professional capabilities. A reason for this could be that in order for HRM professionals to play a strategic role administrative work has to be performed efficiently (Ulrich *et al.*, 1995).

Ulrich *et al.* (1995) argue that the sources of HRM capabilities need to be further explored and several authors have pointed to the importance of social networks in this regard (Truss and Gill, 2005). Social networks enable access to new knowledge with the potential of developing existing capabilities (Nahapiet and Ghoshal, 1998). Lengnick-Hall and Lengnick-Hall (2003) argue that an organisation's network of internal and external contacts creates a system that makes ideas and information accessible to those who need it when they need it. The benefit of being involved in internal and external social networks has been termed social capital and for the purpose of this paper it is defined in line with Lengnick-Hall and Lengnick-Hall (2003) as "the web of relationships among employees and groups (both inside and outside of the organisation) that provides information, helps solve problems, expands customer bases, and does other things that add value and enhance strategic capability" (p. 54).

Some social networks consist of long term, personal contacts, whilst others consist of a broader range of more superficial contacts. A wide range of superficial contacts provides access to different networks with new knowledge and ideas, and extends the potential range of information available. On the other hand in-depth, long-term contacts enable the development of trust between parties over time and the sharing of sensitive information (Inkpen and Tsang, 2005). The degree of formality in different contacts also varies. In some networks information and knowledge can be exchanged at formal gatherings organised by professional organisations, whereas in others this happens more informally over coffee or lunch.

Adler and Kwon (2002) argue that previous research has generally focused on either internal or external networks, but rarely on both. Internal networks such as peer learning networks (Yeung *et al.*, 1996) and global expertise networks (Sparrow *et al.*, 2004) have been the primary focus of previous HRM studies. Less interest has been directed towards internal-external networks which have large potential for the creation of social capital (Lengnick-Hall and Lengnick-Hall, 2003). Exceptions to this include Björkman and Lu (1999), who found that the participation of business executives in China in different social and professional networks was an important way for spreading ideas about efficient HRM practices, and Tregaskis (2003), who studied knowledge acquisition and diffusion through internal and external learning networks in MNCs at the local and the international level.

Studies within institutional theory have also touched on the relevance of networks for the diffusion of knowledge, skills, and practices. A central idea in institutional theory is that organisations for purposes of legitimacy become more like each other through coercive, mimetic, and normative isomorphic processes (DiMaggio and Powell, 1983). In the Chinese context, coercive isomorphic pressure can stem, for instance, from laws and regulations imposed by the Chinese government. Mimetic isomorphism means that organisations in situations of uncertainty tend to copy the activities of other seemingly successful organisations with which they share similar traits (Schoonhoven *et al.*, 1990), and whose practices seem to be effective and suitable in

their environment (Coleman, 1988). Normative isomorphism implies that professionals in the same field, for instance HRM, are likely to influence each other regarding the adoption of different knowledge and ideas (Guler *et al.*, 2002). Organisations connected to each other through members who are part of the same social networks are especially likely to be influenced by each other's ways of doing things (Galaskiewicz and Burt, 1991). In the Chinese context this may mean that Western MNCs will observe and mimic the activities of other MNCs, and that their HRM activities will be influenced by other MNCs as well as professional HRM networks in which subsidiary HR personnel are involved.

The networks of subsidiary general managers, who in China commonly tend to be expatriates, and HR managers, who are usually Chinese, are likely to vary somewhat from each other. Previous studies (Mäkelä *et al.*, 2007) have found that factors such as national-cultural similarity, shared language, and similarity of status increased the interaction between two managers in the same MNC. This is likely also to be the case regarding interaction between managers in different MNCs. For instance, expatriate managers are likely to interact extensively with other expatriates. Similarly, previous research has noted a tendency for HR managers in MNCs to be part of networks consisting of peers from other MNCs (Björkman *et al.*, 2007; Evans *et al.* 2002), which may be due to them being in the same position in international companies and perhaps also sharing the same mother tongue. Furthermore, as a result of previous international work experience expatriate managers commonly have more extensive international social networks than local managers, and are also less likely to be influenced by local institutional pressures regarding HRM (Björkman *et al.*, 2007).

Against this background the aim of the current study is to examine the internal and external social networks in which subsidiary HR and general managers discuss HRM with others, and to explain how their involvement in these networks influences subsidiary HRM capabilities.

## Methods

This study adopts a qualitative research approach and builds on 40 face-to-face interviews conducted by the author in MNC subsidiaries located in Beijing and Shanghai. The interviews were carried out between November 2005 and October 2006 in connection with a wider research project concerning HRM in European-owned subsidiaries in China[2]. In order to minimise potential country-of-origin effects this study is based solely on interviews conducted in subsidiaries of Nordic MNCs. Furthermore, the focus on Nordic MNCs provides the possibility to study HRM networks in MNCs of varying sizes, both large and small, as opposed to only focusing on HRM in the largest MNCs in general and/or in China.

Data collection began by compiling lists of foreign owned subsidiaries from the European Chamber of Commerce in China and various embassies and trade councils. In addition, contacts were gathered by snowballing and by using the project members' existing contacts, thus resulting in a convenience sample. Although random sampling would have been preferable, practical considerations lead to the choice of this sampling procedure. Since the purpose of this exploratory study was to examine how HR and general managers perceive their involvement in different social networks to influence subsidiary HRM capabilities it was assumed that the managers themselves would be

the best sources of information. Therefore interview requests were made both to the HR manager and the general manager in each target subsidiary.

An e-mail describing the project, assuring the confidentiality of the responses, and requesting an interview opportunity was first sent to the subsidiary general managers. In cases where the HR managers' contact information was available the HR manager was also directly contacted by e-mail, otherwise the general manager often referred the contact details of the HR manager. Interviews were scheduled in subsequent e-mails or by telephone. This resulted in interviews with both managers in 17 of the target subsidiaries, whereas in the remaining six subsidiaries either the HR or the general manager was interviewed. In all cases but one the interviews were conducted separately with the general manager and the HR manager. Despite being very time-consuming, the advantage of gathering the data in this way was that it provided an opportunity to get detailed descriptions of the managers' networks and their perceptions of how this influenced their HRM capabilities.

Out of the participating general managers 19 were male and one female. Nine were Swedish, seven Finnish, one Norwegian, one Australian, one American, and one Chinese. Four of the general managers did not come from the MNC home country. Of the participating HR managers, four were male and 16 female. Nineteen were Chinese, and one was Finnish. Characteristics of the sample subsidiaries are presented in Table I.

**Table I.** Subsidiary characteristics ($n = 23$)

| Category | No. |
|---|---|
| *MNC nationality* | |
| Finnish | 7 |
| Swedish | 13 |
| Norwegian | 2 |
| Scandinavian | 1 |
| *Unit size (number of employees)* | |
| $<100$ | 6 |
| $100 < 500$ | 10 |
| $500 < 1{,}000$ | 2 |
| $>1{,}000$ | 5 |
| *Establishment mode* | |
| Continuing ongoing operations | 3 |
| Partly continuing ongoing operations | 2 |
| Starting from scratch | 18 |
| *Joint venture* | |
| Yes | 3 |
| No | 20 |
| *Industry* | |
| Electrical equipment | 8 |
| Telecommunications | 6 |
| Transportation equipment | 2 |
| Industrial equipment | 2 |
| Environmental engineering | 2 |
| Other | 3 |
| Time in MNC (years) | 8.30 |

The interviews were conducted using English, Finnish, and Swedish. They were structured so that the interviewer and respondent first completed a standardised, pre-tested questionnaire[3] together. This was followed by a semi-structured interview/discussion typically lasting between 30 and 60 minutes. The semi-structured interviews, which constitute the empirical base of this study, were recorded when acceptable and verbatim transcribed.

The interviews that followed the completion of the questionnaire focused on the managers' internal and external social networks. First, respondents were asked to explain with whom they met, both internally and externally, to discuss HRM issues. After mentioning their main HRM contacts/networks these were discussed one by one, covering issues such as how often the managers met with their various contacts, in what kind of settings (formal/informal, one-to-one or in groups, etc.), and what sort of HRM issues they discussed. As in the questionnaire the main focus in the interviews was on both technical and strategic aspects of recruitment, training, compensation, and appraisal. The respondents also discussed which of their HRM contacts/networks they perceived to be the most important and why, what they had learned from being involved in different networks and how it had influenced what they did, as well as how it influenced their capabilities to develop and implement activities and practices regarding the four different HRM practices. Finally, the respondents were asked how they perceived that their involvement in the different networks influenced the HRM capabilities of the subsidiary. The interviews with HR managers and the interviews with general managers followed the same structure.

## Findings

This section presents the findings of the study in terms of an informal network analysis. The external networks, which are described first, are divided into MNC and local networks. Internally a distinction is made between global, regional, and subsidiary-internal networks. In order to improve the readability of the quotes presented, some grammatical corrections have been made to the original comments of the respondents. The findings are summarised in Figure 1.

### *HR managers and external MNC networks*

The HR managers agreed that networks with other MNCs were valuable for learning about HRM issues. The primary discussion partners were HR managers in other MNCs, whose local insight as well as insight into their respective MNCs, made them appreciated partners for discussing and sharing experiences and ideas. The HR managers valued learning about how others handled various HRM issues in order to get ideas of how to handle similar things in the own company and agreed that the key question for them was how to develop and/or adapt suitable practices locally. As one respondent said:

> I think that the contact externally is what is important. You can find a lot of things to do internally regarding HR, but focusing on doing the right things, that's where you can actually make a real contribution (HR manager 8).

Regarding HRM practices the HR managers primarily discussed recruitment and compensation. Another common topic was legal issues like employment contracts and labour disputes. In many cases HR managers in other MNCs were former colleagues or

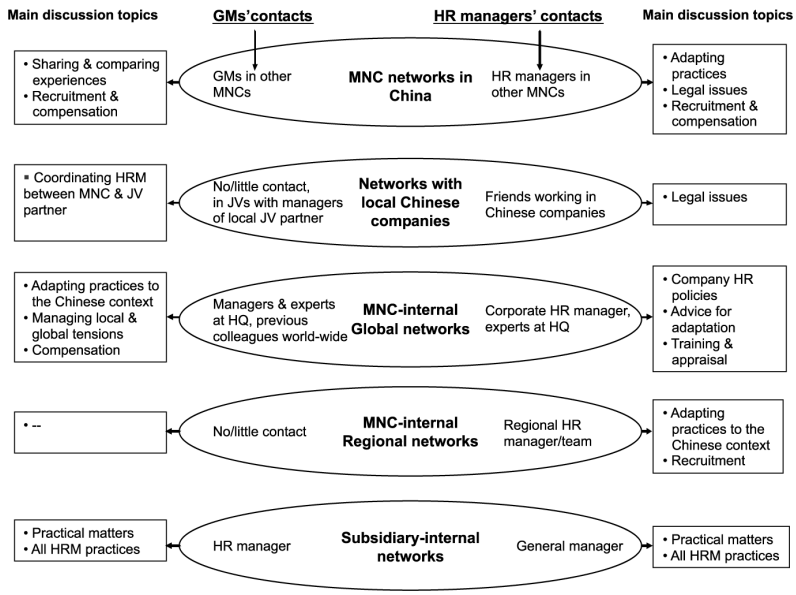



**Figure 1.**
Summary of findings

friends of the respondents. Thus, contacts were often informal in the shape of lunch and dinner meetings and also included e-mails and phone calls in situations where advice was needed for a specific problem. Comments regarding this included:

> Because we all [the HR people in the subsidiary] come from other companies we have previous colleagues and colleagues' friends. Previously I worked for MNC X so I still have a lot of contact with that company. We phone each other, see each other. We are no longer colleagues but friends (HR manager 5).

Most HR managers had formal contact with other MNCs and attended different HR clubs intended for MNC HR managers. Many emphasized the importance of these forums for learning about HRM and participation in HR club events was also seen as a way of meeting and developing personal contact with HR managers from other companies. Commonly these kinds of meetings took place at least once every month but were attended depending on the topic of the session. Respondents described these meetings as interactive discussion groups or workshops that were often preceded by a seminar in which the speaker was either one of the HR managers themselves or external experts or consultants. As one respondent commented:

> It's really only a kind of session where we exchange information about how we do things in a certain area and what the others do. We group ourselves so that we don't have any direct competitors in the same group so that we can discuss quite freely. And it's really very good, especially here in China since everything is moving all the time and so much is happening, you really need someone to somehow exchange all this with (HR manager 8).

One particular association mentioned by many of the HR managers was Foreign Enterprise Human Resources Service (FESCO). FESCO handles a wide array of issues

on behalf of foreign companies, including social insurance and compensation related matters and also arranges seminars and workshops on HRM-related topics. Although many companies were members in different chambers of commerce or business councils, these activities were primarily targeted at the European subsidiary GMs and therefore rarely attended by the predominantly Chinese HR managers. The HR managers who did not attend any HR club meetings all said they wanted to but could not. Usual explanations for this included lack of time, too much administrative HRM work, and/or the GMs' negative attitude towards such meetings. A few were unable to attend because of their geographical location outside the cities, which meant travelling to the meetings would take too long.

In subsidiaries located in industrial parks respondents usually participated in special meetings for park HR managers. These meetings provided insight into what competitors were doing since they were commonly located within the same area. Common discussion topics included recruiting and salary levels in the park. However, due to the fact that many of the participants were competitors, the discussion in these meetings was reportedly fairly restricted and many respondents said they felt this limited their learning:

> Concerning the people [HR managers] in this park, we are competitors with each other so payroll, salary, compensation issues are a little bit of a sensitive topic . . . So we can't share as much as we want to share (HR manager 1).

*General managers and external MNC networks*

The GMs considered GMs in other MNCs to be valuable contacts and many even saw them as their most useful source of HRM knowledge in China. The GMs discussed all kinds of HRM issues with each other but what they valued most of all was the possibility to share and compare practical experiences. Getting advice on what others had done in situations that they were currently facing was particularly helpful. Of the individual HRM practices recruitment was most frequently discussed, followed by compensation. Training and appraisal were reportedly discussed more internally than with external counterparts. Comments regarding this included:

> Usually we compare, "oh you did this and this in a similar situation" or "I have this kind of a problem with an employee, how have you solved a similar issue" (General manager 20).

Contacts to MNCs from the same home country were perceived as especially important since these companies were viewed to be the most similar and comparable. For example one GM stated:

> I don't think that there's really any other reason than that we [the GMs] know each other of course and then coming from the same home country we have the same kinds of problems and then of course our HQs think in the same way . . . So the situation is as similar as it can be and in that case you get the best knowledge from there since you can apply it straight off (General manager 1).

Many GMs raised the importance of discussing the same thing with several different people in China. Networks with other MNCs were mentioned as a good source of getting second opinions from people outside the company who were unaffected by internal company politics. For instance the subsidiary HR manager's own agenda was

mentioned as one example of internal politics since it could influence the advice he/she gave on certain things related to, for example, compensation. One GM commented:

> I am in contact a lot with a HR manager in company X [another MNC] and since we have no other business relation than this it means I can get apolitical answers from her which is very important in China because it's so very political here. If I ask my own HR manager, well I wouldn't say she has her own agenda exactly but she has a political reason for answering in a certain way (General manager 5).

GMs in subsidiaries located in industrial parks participated in special park GM meetings. The discussion in these meetings was quite political, since many of the participating MNCs were competitors, leading to issues such as competition for the same employees and problems regarding "stealing" each other's employees, etc. Thus, common topics for discussion included the setting of certain maximum salary levels, and informal agreements about not recruiting each others employees:

> We have a certain kind of communication where we agree that we won't recruit from certain companies. It's a kind of gentlemen's agreement that we're forced to use . . . Then in situations where this is a problem we phone each other and check "Do you have a problem with this?" (General manager 18).

Although most GMs communicated informally with other GMs, they were generally reluctant to use the term "expat network", which they perceived as something negative. Although they discussed HRM issues with other expatriates, they pointed out that this contact was primarily social, and wanted to separate between work and social contact. Some emphasised that they really tried to avoid a situation of expatriates versus locals in terms of networking. As one GM commented:

> It's easy to find yourself in a situation of them and us where we are the expats and they are the locals. I think that is very dangerous . . . So expat networks during your free-time, yes, but I'm a bit afraid of these expat networks during working hours (General manager 13).

Another thing that became apparent was that GMs with longer international experience, in China or elsewhere, tended to be less involved in formal contact, for example through various chambers of commerce. They considered such meetings to be more for newcomers and used them simply to get contacts that they then upheld informally. As one GM pointed out:

> I don't use those kinds of forums more than to get the contacts. Then the actual discussion takes place in informal meetings. I've personally never gotten any help from seminars for foreign companies. There are a lot of different ones but I've been here much too long so the level of those kinds of meetings makes them completely uninteresting for me (General manager 5).

However, chamber and council meetings were appreciated by many other GMs, especially those in smaller companies without a well-developed/active corporate HR function at headquarters and no internal regional network. They were involved in, and appreciative towards, formal forums, something that could be interpreted from comments such as:

> I would argue that without these external contacts [other MNCs] it is not easy to operate here, or to set up any kind of operations (General manager 19).

*Involvement of HR and general managers in external local networks*

The GMs in this study were rarely, if at all, in contact with Chinese companies regarding HRM. The most common reason mentioned was that local companies operated in such a different way that there was not really much point in discussing HRM matters with them. An exception to this was joint ventures, but even then most issues were primarily handled by the Chinese HR manager. Language was also a factor restricting the contact that GMs had with local companies.

The HR managers also had less contact with local companies than with other MNCs. Several respondents explained that they felt they did not have as much to learn from domestic companies since they, like the GMs, perceived MNCs to be very different. Whilst their peers in local companies were generally keen to learn more about MNC practices, the respondents primarily viewed them as sources of knowledge and advice regarding issues related to the local institutional context. There was agreement amongst the HR managers that their contact with local companies was often due to having former colleagues or friends working there. Comments regarding this included:

> . . . the way to operate business and the way to provide HR support are different. So usually I think people from MNCs tend to form a group that consists mostly of members of MNCs. (HR manager 18).

Out of the 20 HR managers in the study, 15 had been previously employed by another MNC or another unit of the same MNC in China or abroad[4]. Because of this most of their HRM contacts were in other MNCs. As one HR manager commented:

> Not really with the local Chinese firms. Take myself for example, I have worked in a local company only for 2-3 years [before working at her previous place of employment in another MNC] and it wasn't even in the HR subject so all my HR contacts are in international companies (HR manager 5).

Regarding other external contacts in China, both HR managers and GMs mentioned consultants. However, generally consultants were not viewed as important sources of learning as such, but rather as facilitators that helped organise various seminars or training with other MNCs, and/or provided statistics. Some HR managers mentioned that they discussed employment contracts and labour disputes with lawyers, and HR managers from companies in industrial parks were in contact with the governmental park labour bureaus regarding similar issues.

*HR managers and MNC internal networks*

Internally the HR managers discussed HRM with people at three different levels:

(1) the global level;

(2) the regional level; and

(3) the subsidiary level.

At the global level the main contact person was generally the corporate HR manager at headquarters or, in a larger company, experts within specific HR functions. Due to the large geographical distance between China and the MNC home country, formal meetings for HR managers around the world were organised a few times per year. Consequently contact was primarily based on phone calls and e-mails. However, as one GM commented:

> I think our problem is that the local HR managers are very strongly unit-bound and that this kind of informal communication where they just phone up HQ for a chat doesn't necessarily fit in with the local way of doing things . . . They need to have a really important issue to have the courage to be in contact with HQ (General manager 18).

HR managers in companies with an active corporate HR function mentioned it as a source of concrete help regarding HRM. For instance company handbooks and manuals were considered a good starting point from which to develop subsidiary policies and practices to suit the Chinese context. Concerning individual HRM practices, training and appraisal were commonly discussed with headquarters. Generally respondents in companies with small and/or not so developed corporate HR functions were barely in contact with headquarters at all because there was simply nobody there to discuss HRM issues with. This could be interpreted from comments such as:

> We don't work with the HR function from headquarters . . . According to them our HR function is much stronger and in a way you could say it is more advanced . . . We do more here to put it in a simple way. We do more in the HR function here compared to headquarters (HR manager 5).

A few HR managers in big MNCs mentioned that they discussed HRM issues with peers in other subsidiaries world-wide. In general this contact was informal but had been established at a formal corporate meeting/event:

> After having worked in the company for a while you have quite a few informal contacts to use, it's like a network of people you can use as support if you need information regarding a specific question . . . I mean in this kind of job you're pretty alone, you really don't have that many people to talk to, you just have an organization and then someone above you who is a business person . . . So this network with the home country or with other parts of the company worldwide becomes very important (HR manager 8).

Of the 23 target subsidiaries, three had a regional headquarters located in China, and three had a regional headquarters located somewhere else in Asia. Six subsidiaries had both a China and an Asia regional headquarters, and 11 had neither. In companies with existing regional networks, these were highly valued since they incorporated both the internal company context as well as the external Chinese/Asian context. Regional contact was both formal and informal; typically companies would have a formal annual or quarterly meeting and then the HR managers would be in contact with one another on a more informal basis throughout the year. In larger companies, important regional contacts were HR managers for other business units, whereas in smaller ones it was the regional HR manager.

The most important thing HR managers perceived that they gained from regional networks was learning about the adaptation of HRM practices to the Chinese context. Concerning individual HRM practices, recruitment was discussed extensively, for example different recruitment methods and how to attract qualified candidates. Comments included:

> We [company HR managers in the region] discuss difficulties we have met in the past year, and challenges in HR work and we also share experiences or special cases that we have faced in the past . . . The people who are invited to the annual meetings are HR managers from other units within our company so we find we have a lot in common and a lot to share since we are all in the same situation (HR manager 12).

Especially in the smaller subsidiaries, the HR managers discussed HRM with the GM on a day-to-day or at least weekly basis. Often the discussion centred on practical matters such as which job fairs to attend or potential candidates for different job openings. The GM was also the one person in the subsidiary-internal context that some HR managers did mention as a source of learning regarding HRM. Otherwise the HR managers did not think they learned much from the own subsidiary but felt that they instead contributed to the knowledge of other HR staff by sharing what they learned elsewhere. As one respondent described it:

> I will tell my subordinates about big issues or big events in the company recently and what my requirements for them to do are. And then usually we will spend most of our time discussing how to deal with specific problems that they have, how they can do their work better. I will help them (HR manager 12).

A few HR managers mentioned that they learned a lot from working together with business managers, especially line managers, since this brought in more business context in which to apply HRM. Others who did not have this experience mentioned it as a development opportunity, both in terms of them learning from the line managers directly, but also in the sense that the line managers learning about HRM could strengthen the capabilities of the HR function and provide backup and new input to it.

*General managers and MNC internal networks*

Compared with the HR managers, the GMs had more contact with headquarters and more networks on the global level in general. This is perhaps understandable, since they often had previous international experience whereas HR managers did not. The GMs' global contacts were primarily within headquarters and corporate HR and most of the communication was informal, through telephone conversations or e-mails, with formal meetings organised a few times a year. Other global contacts included subsidiary and HR managers worldwide, often previous colleagues.

Much of the contact with headquarters was about interpreting the communication between headquarters and the subsidiary and checking "Is it OK if we do it like this in China" and communicating "We need to do it like this in China because…". Many GMs mentioned that they viewed themselves as a bridge trying to maintain a balance between making the company attractive to Chinese employees whilst at the same time retaining the company's identity. One GM commented on this as follows:

> The discussion with the home country is to a large extent based on trying to get them to understand what goes on here … and somehow also to get them to let go of their fear, the danger of having a factory in China where everything is manufactured at much lower costs. Making them see us as something else than just a threat (General manager 4).

Being involved in networks with headquarters, while at the same time being a part of the subsidiary environment and the local Chinese environment, served to increase the GMs' understanding of the tension between local and global in the MNC. Receiving headquarters' view on subsidiary activities while simultaneously facing the actual reality of the subsidiary appeared to offer GMs a better position from which to determine appropriate and efficient HRM solutions. One GM gave the following example of an insight gained about headquarters' attitude towards Chinese employees in the subsidiary:

> Their [HQ's] idea of an integrated team is to bring all the Europeans over and get all the Chinese working for them so all of the Western expats have the good jobs and the Chinese guys are doing the more menial tasks . . . Some of the Westerners come over thinking okay we are the expats, we are the experts and the two are not synonymous (General manager 11).

The attitude to headquarters varied between different GMs, and to some extent this depended on their international experience and need for support from headquarters. Some valued headquarters' opinion regarding HRM highly and were keen to get their advice and templates regarding just about everything. This was generally true if the company had a well-developed, active corporate HR function, which was often the case in bigger companies. One GM mentioned that the company's existing global policies and practices helped legitimise using the same things in China, which was very helpful when discussing the adaptation of practices and trying to gain the Chinese employees' acceptance for certain practices.

Some GMs did not have much confidence in headquarters' understanding for operating in the Chinese context. They expressed frustration over this and said they did not think they learned much from headquarters despite of being in frequent contact with them. This was more common in smaller companies with a corporate HR function that worked less well, and where the people working at headquarters had little knowledge about China. Sometimes this kind of attitude on behalf of the GMs was based on previous experience of working in another of the MNCs' subsidiaries.

Regional contacts were mentioned more seldom by the GMs compared with the HR managers. One possible reason for this is that while global networks tend to be more focused on strategy and thus involve the GMs, the operations of many regional headquarters tend to be more functionally orientated. Regarding the subsidiary context, many GMs said they learned a lot about HRM in China through their HR managers. The GMs' previous international experience, and also to some extent their attitude towards China and the Chinese, affected their involvement in, and attitude to, subsidiary HRM. Some GMs with a lot of prior international experience relied heavily on it even if this experience was not always within HRM but rather related to the setting up/managing of a small subsidiary far away from home. In these cases there appeared to be a risk that the HR manager was not given enough responsibility or training, and was not encouraged to participate in external HR networks. There were also exceptions where the GM's experience had worked in the other direction, convincing him/her of the need to invest more in HRM.

## Discussion

This section discusses the findings with a focus on differences and similarities between HR managers and GMs, and different MNCs. Concerning external networks, the findings indicate that both GMs and HR managers viewed their contact with other MNCs as important for developing their HRM capabilities. The managers felt that their technical HRM capabilities relating to recruitment and compensation in particular were enhanced by the advice that they gained from this contact. In addition to this the opportunity to share experiences with people in the same situation as themselves, which as Evans *et al.* (2002) suggest is especially important when trying to determine the appropriateness of new practices, provided the managers with new insights that helped enforce their strategic HRM capabilities.

This implies that MNC networks are powerful when it comes to influencing the development of HRM in MNCs in China. From an institutional perspective MNCs can be viewed as important actors driving mimetic and normative isomorphic processes, since their ideas, knowledge and actions are viewed as important by other MNCs when considering how to handle HRM matters. While this study only examined the influence of MNCs' HRM approaches on other MNCs, is very likely that MNCs stand as role models regarding HRM for local companies as well.

Contrary to MNC networks, both HR managers and GMs were of the opinion that participation in local Chinese networks provided close to no opportunity for enhancing either technical or strategic HRM capabilities. This result is in line with previous studies, for example that of Arias and Guillén (1992), who studied transfer of HRM technology between MNCs and local Ecuadorian firms. They found that managers in Ecuadorian firms and managers in MNCs constituted two separate networks with almost no transfer of know-how. According to Evans *et al.* (2002) this is understandable since the local companies in this case are smaller and less sophisticated than the MNC subsidiaries.

The size of the MNC overall and the size/role of the corporate HR function influenced the external networks of subsidiary GMs and HR managers. In bigger MNCs where the corporate HR function generally tended to be larger and more active, the managers were less dependent on external networks, whereas the opposite was true in smaller MNCs. The GMs' previous international experience, their attitude to HRM, and their attitude to headquarters and corporate HR influenced their participation in external networks as well as how they perceived that this participation helped develop their HRM capabilities. The more international experience they had, the more they relied on informal contact with other MNCs, whereas GMs with less experience were more involved in formal external networks. For HR managers it was more common in general to be involved in formal external networks.

Concerning global networks, contact with headquarters and corporate HR provided access to existing HRM knowledge and experience and provided ideas for handling similar issues in the subsidiary. This implies that the managers' strategic HRM capabilities, as well as to a lesser extent their technical capabilities, were influenced through participation in global networks. In particular, involvement in global networks helped enhance the HR managers' understanding of practices related to appraisal and training, whereas the GMs gained new insight into compensation-related matters.

The GMs generally had better MNC-internal contacts than the HR managers due to previous experience of working in another part of the MNC. Although the internal networks of the HR managers were not as extensive, they were nonetheless perceived to be useful. From the MNC's point of view it could thus be worthwhile to encourage more involvement in internal networks on the part of the HR managers, who seemed to have a greater need to learn about corporate HRM than GMs. This appeared to be acknowledged in several of the MNCs in this study, which had recently begun organising annual or quarterly meetings for HR managers worldwide to encourage contact with internal counterparts.

Regional networks were considered useful by the HR managers who had access to them and were considered to enhance the understanding of both strategic and technical aspects of HRM since they incorporated the corporate as well as the local/regional

context. These networks were perceived as valuable since they permitted a focus on the company's specific situation and its specific challenges and problems, but on the other hand they did not necessarily provide opportunity to gain as much new external input as the contact with other MNCs.

Concerning the subsidiary-internal context, the GMs felt that their HRM capabilities developed more in this context than HR managers thought theirs did. Subsidiary networks influenced the technical aspects of the HR managers' and the GMs' HRM capabilities, mainly through the process of learning by doing together with each other and the rest of the HR team/department. Involvement in subsidiary networks did not seem to have any important influence on the development of their strategic HRM capabilities. However, the strategic capabilities of the rest of the HR department were enhanced since the HR managers shared knowledge, information, ideas and advice obtained from contacts in other networks with their colleagues in the subsidiary.

The findings of this study have some practical implications for MNCs establishing themselves in China. Considering that participation in networks is both time-consuming and costly, managers need to consider which networks seem relevant to participate in actively and which perhaps seem less so. Since MNC networks are important sources of HRM knowledge and ideas, GMs and HR managers in companies new to China should be encouraged to participate in these kinds of forums from the very beginning. At least for the time being, it seems that participation in networks with local Chinese companies is not as relevant. Internally there appears to be a greater need for HR managers to improve their global networks than for GMs, who generally tend to have more extensive networks within the MNC. This study indicates that managers use both social and professional networks for learning about HRM. Contact in these networks is a mixture of both formal and informal, but formal contact generally constitutes a starting point for the development of subsequent informal contact.

## Limitations and future research

The following limitations should be observed when interpreting the findings of this study. The interviews were all conducted in subsidiaries located in Beijing and Shanghai and the respondents were all employed in Nordic MNCs. This could carry implications for the generalisability of the findings, regarding both differences within China and differences associated with the MNC's home country. Furthermore, this study does not include the cost aspect of HR managers' involvement in various networks, which is something that future studies could incorporate into the discussion. The interview language is another possible limitation, since the language skills of the interviewer and the interviewee are likely to affect the dynamics of the interview situation in various ways (Marschan-Piekkari and Reis, 2004). While the GMs were mainly interviewed in their native language (i.e. Finnish, Swedish or English), the HR managers could not be offered this possibility and were all interviewed in English. Although many HR managers did have a good command of the language, this could carry implications for their ability to express themselves in a free and relaxed manner. Finally, the fact that the sample used for this study was one of convenience also constitutes a limitation.

The limitations of this study open up ideas for future research. Firstly, the tentative findings of this paper could be further tested in future research on a larger, random sample. Furthermore, while this study focused on the influence of social networks on

HRM capabilities in China, conducting a similar investigation in other host-country environments would help to shed light on the extent to which these findings apply to MNC units across contexts. The role of external networks is likely to vary considerably depending on the subsidiary's host country. Contact between Nordic MNC subsidiaries and local companies could for example be more frequent in countries such as the USA and Australia, as well as in some parts of Western Europe. This is feasible since differences between Nordic MNCs and local companies in these countries are likely to be smaller than they are in China. Consequently, contact with local companies may be considered more useful than appeared to be the case in China. In addition to this it could be easier to establish and uphold contact between Nordic MNCs and local companies in these countries due to similar language skills and greater cultural similarity. On the other hand, there are also likely to be countries in which the situation is similar to that in China; for example, Russia could be interesting to study in this regard.

Another issue worth investigating further is the role of social networks in regard to other functions such as, for example, marketing or R&D. Furthermore, while this study focused on the structural aspect of social capital, future studies could also incorporate cognitive and relational aspects. One idea would be to explore more extensively the quality of different relationships and networks, and the ability of HR managers to initiate and maintain them. Finally, whereas this study did not take into account the performance levels of the HR and general managers, future research could study the potential differences between the social networks of effective and ineffective managers[5]. In addition to this, future research could also explore whether the benefit of involvement in social networks is continuous or whether there is a saturation point when subsidiaries no longer benefit from further networking.

Despite its limitations, this study contributes to our knowledge of the development of subsidiary HRM practices in several ways. By incorporating the concept of HRM capabilities it addresses the gap in previous research regarding the importance of how things are done in HRM. Furthermore, by providing an in-depth description of the social networks that subsidiary HR and general managers have, and how this influences subsidiary HRM capabilities, this study responds to calls made for more research regarding the outcomes of social capital in MNCs (Kostova and Roth, 2003). Another important aspect of the current study is the focus on both internal and external networks which sets it apart from previous work in the field. In conclusion, this study indicates that social networks matter and deserve to be further explored in future studies.

**Notes**

1. In this paper I treat the term "capabilities" as being synonymous with the term "competencies" used by, for example, Ulrich *et al.* (1995) and Becker *et al.* (1997).
2. In this project quantitative questionnaire data were gathered from 87 European-owned subsidiaries located primarily in the Beijing and Shanghai areas. One hundred and sixty-one general and HR managers were interviewed and the response rate for the entire project was 28 per cent.
3. The questionnaire consisted of questions regarding four HRM practices, i.e. recruitment, training, compensation, and appraisal. Topic areas covered included the extent to which HRM practices resemble local and/or home country practices, the mechanisms used to integrate practices, the capabilities of the subsidiary HR department, and the networks in which HRM is discussed with others.

4. The remaining five respondents had previously been employed by a Chinese company or recruited from a Chinese school/university.
5. My thanks to an anonymous reviewer for making this suggestion.



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**Paper 6**

**Sumelius, J.**

**The strategic role of the HR department in MNC subsidiaries in China between 1999 and 2006.**

# THE STRATEGIC ROLE OF THE HR DEPARTMENT IN MNC SUBSIDIARIES IN CHINA BETWEEN 1999 AND 2006.

**Abstract**

*In this study I examine factors that influence the strategic role of the HR department in Western MNC subsidiaries in China between 1999 and 2006. Despite of the acknowledged importance of the HR department in connection with the development of capabilities and the coordination of practices within MNCs, research on the role of the HR department in MNCs remains scarce. The current study is based on two sets of quantitative questionnaire data collected in 142 subsidiaries in 1999 and 2006. The results indicate that the role of the HR department is more strategic in 2006 than it was in 1999. Furthermore, subsidiary size and the size of the HR department were positively associated with the strategic role of the HR department.*

## 1. INTRODUCTION

Previous research has argued that HR departments in MNCs should shift focus from their traditionally administrative role towards a more strategic one (Beer, 1997; Ulrich, 1997). However, whilst various scholars claim that the HR department should play a more strategic role it is unclear if this is actually the case (Wright, Mitsuhashi and Chua, 1998). Surprisingly little research has been conducted on how HR departments in MNCs organise and structure themselves in order to balance their strategic and technical HRM activities and meet the demands for local responsiveness and global standardisation (Stiles and Trevor, 2006).

Furthermore, the research that has been conducted on the role of the HR department in MNCs has concentrated almost exclusively on the role of the corporate HR department (Novicevic and Harvey, 2001; Scullion and Starkey, 2000) whilst the subsidiary HR function has received considerably less research attention. Although the role of corporate HR is undoubtedly

important, the role of the subsidiary HR department should nonetheless not be forgotten as it plays an important part in helping the MNC balance its activities between local and global needs (Truss et al., 2002, Farndale and Paauwe, 2005). Thus, focus needs to be widened to include the operations of the subsidiary HR department when discussing the role of the HR function in MNCs. Stiles and Trevor (2006) posit that more research is needed on how HR departments in different countries change as a response to the isomorphic pressures from their environments.

Recent studies indicate that HR departments in domestic Chinese companies are moving from their traditionally administrative role towards a more strategic role (Braun and Warner, 2002; Zhu et al., 2005). The few studies (e.g. Braun and Warner, 2002) that have examined the role of the HR department in MNC subsidiaries in China suggest that the same is true regarding MNC subsidiaries. However, more research is needed on the factors that influence the role of HR departments in China and how it is changing. Zhu, Thomson and de Cieri (2008) posit that there in particular is a need for studies examining the development of HRM in China over time. Consequently, the aim of the present study is to address this gap by examining factors that influence the strategic role of the HR department in MNC subsidiaries in China between 1999 and 2006. I also examine the change in the role of the HR department during this time period. I adopt a subsidiary perspective and the context is Chinese subsidiaries of Western MNCs. The study is based on quantitative questionnaire data collected in 1999 and 2006 through structured, face-to-face interviews with general managers and HR managers in 142 subsidiaries.

## 2. THE ROLE OF THE HR DEPARTMENT IN MNCs

Past research has mainly focused on the role of the HR department through the development of different classifications of the roles played by HR professionals (e.g. Tyson and Fell, 1986;

Storey, 1992; Monks, 1993; Ulrich, 1997). The typologies by Storey (1992) and Ulrich (1997) constitute two of the most notable conceptualisations. Storey (1992) differentiated between four personnel roles: advisors, handmaidens, regulators and changemakers. This differentiation was based on two dimensions, intervention versus non-intervention and strategic versus tactical. In Storey's (1992) typology the changemaker role is the most strategic and interventionary and the role of the handmaidens the least so, whereas regulators and advisors fall somewhere in between. However, as Caldwell (2003) points out the role of HR professionals has changed to become more complex and characterised by role conflict. This means that the different roles in Storey's typology overlap more and more, and that it is increasingly hard to simply 'box in' HR professionals into one role. Similarly to Storey (1992), Ulrich (1997) developed four main roles of HR professionals: employee champion, administrative expert, change agent, and strategic partner1. The roles are based on the dimensions strategic versus operational focus, and processes versus people. The roles of change agent and strategic partner are more strategically orientated whilst administrative expert and employee champion are more operationally focused. Similar to Storey's (1992) typology there is also overlap and role conflict between Ulrich's (1997) roles that according to Caldwell (2003) offer 'a prescriptive vision of the future' that is hard to realise in practice.

Despite the variations in the conceptualisations of the role of HR professionals, there is general consensus in the literature that the responsibilities of the HR department can be roughly split into two categories, thus creating two roles- an administrative and a strategic role. Ulrich (1997) argues that the HR department needs to manage both of these roles and that in order to do so it

[1] This classification was later further developed by Ulrich and Brockbank (2005), the names of the roles were changed and they were somewhat modified and a new role was added. However, much of existing research nonetheless continues to refer to the original 1997 roles since the new roles link strongly to them (Torrington, Hall, and Taylor, 2008).

needs both technical and strategic HRM capabilities. However, Truss et al. (2002) maintain that it is unclear what exactly is meant by the HR department playing a strategic role. Wright, McMahan, McCormick, and Sherman (1998) argue that a strategic role for the HR department entails two things. Firstly, in order to ensure that the company has the HRM capabilities needed to carry out the intended company strategies, the HR manager needs to be involved in strategy planning. Secondly, the HRM capabilities need to be used to ensure that the development of appropriate HRM practices. For the purpose of this paper I conceptualise the strategic role of the subsidiary HR department as "its ability to configure the organisation's human resources over time, to create an environment where change and learning are embraced and diffused throughout the organisation, to adopt a future focus and to develop links with the overall strategic direction of the organization." (Truss et al., 2002:40)

Further, Truss et al. (2002) argue that it makes sense to distinguish between the corporate HR department and the subsidiary HR department in this regard. The role of the corporate HR department and the subsidiary HR department are different in that they deal with HR on two different levels- corporate HR on an international, global level, and subsidiary HR on a local or perhaps regional level. Scullion and Starkey (2000) posit that key roles of the corporate HR department often include management development, managing mobility of expatriate managers, career planning, succession planning, strategic staffing, and top management rewards. In MNCs it is common for corporate HR to be responsible for managing key personnel in worldwide operations while the rest of the staff is managed by subsidiary HR departments (Scullion and Starkey, 2000). Thus, a strategic role does not necessarily entail the same things at the level of the corporate HR department and at the level of the subsidiary HR department. Despite of this the roles of the two departments are likely to be influenced by each other, depending at least

partly on the design of the MNC's overall international HRM system (Farndale and Paauwe, 2005).

### 2.2 Institutional theory and the role of the HR department in China

Institutional theory suggests that organisations strive for legitimacy in their environment. This quest for legitimacy means that organisations in the same environment will become more like each other through the process of institutional isomorphism. DiMaggio and Powell (1983) suggest three isomorphic processes that influence this process, namely coercive, mimetic and normative isomorphism. Coercive isomorphism can be described as pressure coming from an instance on which the organization is dependant, for instance the government. Mimetic isomorphism implies that organisations in situations of uncertainty mimic other organisations that are viewed as successful in their environment. Normative isomorphism is linked to professionalisation, which means that certain ways of doing things can become taken for granted within a professional network for instance, and thus influence the activities of an organization. MNC subsidiaries are subject to dual institutional pressures since they, in addition to being influenced by institutional factors in their local environment, also experience pressure from the MNC parent company (Kostova and Roth, 2002).

Locally it is probable that MNC subsidiaries experience coercive pressure from the Chinese government. However, in regard to the role that the subsidiary HR department plays mimetic and normative isomorphic pressures are likely to be more important. Previous research has shown that organisations in situations of uncertainty are likely to mimic other similar organisations in their environment that are perceived to be successful (Guler, Guillén and MacPherson, 2002). Since the Western concept of HRM has not been a characteristic of the Chinese institutional

environment (Zhu and Warner, 2000), I argue that the HRM activities of Western MNCs in China have been, and still are, to a large extent influenced by other Western MNCs. This means that MNCs are viewed as role models by other MNCs (and probably also by local Chinese companies) and consequently that they have an important influence on the development of HRM in China. In addition to pressures in the local environment, the subsidiary may also experience coercive pressures from the MNC parent company to accord more importance to the strategic role of the HR department.

I will now go on to develop our hypotheses drawing on institutional theory.

## 3. HYPOTHESES

### Change in role between 1999 and 2006

In China the HR department has traditionally played a predominantly administrative role (Mitsuhashi et al. 2000). Although this still tends to be the case in many companies, recent research suggests that things are changing and that HR departments both in domestic Chinese companies, as well as in MNC subsidiaries in China are becoming more strategic (Braun and Warner, 2002; Zhu et al., 2005). From an institutional perspective this implies that MNC subsidiaries are according more importance to the strategic role of the HR department as a result of isomorphic pressure from both the local environment as well as the corporate MNC environment. It is for instance feasible that improved academic education as well as corporate investment in the development of HR managers have increased the importance accorded to the HR department (Cooke, 2004).

Björkman et al. (2008b) examined HRM practices in European MNC subsidiaries in China over a ten year period and found that they increasingly resembled both MNC and host country practices as a result of Chinese HRM practices having become considerably more similar to MNC practices during 1996-2006. This is in line with Tung (1995) who argues that processes of globalization of the HR profession are likely to have had a homogenizing effect on HRM in different countries. Based on the above argumentation I present the following hypothesis:

*Hypothesis 1)* *The role of the HR department in MNC subsidiaries in China was more strategic in 2006 than it was in 1999*

**Background of the HR manager**

Following previous studies (Björkman and Lu, 2001) I argue that the background of the HR manager will influence the role of the subsidiary HR department. I suggest that there is a difference between managers who have a background in a local Chinese company and those who have experience of working in an international company. I argue that this difference in background is likely to affect the HR manager's view of HRM, and also influence the role of the HR department, since managers with a background in local companies are more likely to consider local views on HRM and HRM practices as appropriate and taken for granted. Furthermore, it is possible that an HR managers' previous experience of working in an MNC also influences the credibility of him/her in the eyes of others and thus, increases the possibility of taking on a strategic role.

Conversely, a manager recruited for instance from another MNC is not as likely to encompass a local viewpoint on the role of the HR department or to be influenced by the mimetic and normative isomorphic pressure from the local Chinese companies, but rather perhaps from other MNCs. This implies that HR managers with a background in local Chinese companies or

managers recruited directly from a Chinese university are less likely to emphasise the strategic role of the HR department than HR managers with experience of international HRM, since the HR department traditionally has had a more administrative role in China. Accordingly, I hypothesize the following:

*Hypothesis 2)* *The role of the HR department will be less strategic in subsidiaries in which the HR manager was recruited from a local Chinese company or university*

**Number of expatriates**

Previous studies (Myloni, Harzing, and Mirza, 2007; Björkman and Lu, 2001) have shown that subsidiaries with more expatriates generally tend to have HRM practices that more closely resemble MNC home country practices than what is the case in subsidiaries with less expatriates. Expatriate managers generally have more extensive international social networks than local managers, at least partly because of their previous international work experience. They are also less likely to be influenced by local institutional pressures regarding HRM (Björkman, Fey, and Park; 2007).

As a result of their involvement in different international networks in which they have been exposed to many different approaches to HRM, expatriates tend to act as 'bearers' of different HRM ideas (Coller and Marginson, 1998). In the case of the strategic role of the subsidiary HR department, it can be assumed that it has been accorded more importance in Western HRM than what has traditionally been the case in China (Björkman et al., 2008a). Therefore it is likely that the importance of the subsidiary playing a strategic role will be more emphasised in subsidiaries with a larger number of expatriates. Based on the above reasoning I hypothesize:

*Hypothesis 3)* *The relative number of expatriates will be positively associated with the strategic role of the HR department*

**Size**

Gupta and Govindarajan (2000) argue that larger subsidiaries have a greater pool of resources dedicated to the creation of new knowledge. This implies that the size of the subsidiary may positively influence subsidiary HRM in general and more specifically the subsidiary's possibilities to focus on strategic HRM. Truss et al. (2002) argue that it is more difficult for HR departments in large and complex organisations to act in a strategic way. However, regarding subsidiaries it is feasible that larger subsidiaries will have more resources that allow for a larger, more well-developed HR department that has the possibility to focus on strategic matters. Accordingly, I hypothesize the following:

*Hypothesis 4a)* *Subsidiary size will be positively associated with the strategic role of the HR department*

Ulrich (1997) argues that a prerequisite for the HR department to play a strategic role is that the administrative/operational work is performed efficiently. I argue that a small HR department with few employees will not necessarily have the required time and resources to execute both administrative tasks as well as engage in strategic issues. An exception is of course a department in which much of the administrative tasks have been outsourced so that even if the department has a smaller headcount it has the possibility to focus on strategic issues (Brewster et al., 2006). A larger HR department, however, will be more likely to have enough resources/staff members

to ensure that the administrative work can be efficiently performed, thus enabling the HR department to also focus on strategic matters. Consequently, I propose the following hypothesis:

*Hypothesis 4b)* *The relative size of the HR department will be positively associated with the strategic role of the HR department*

## 4. METHODS

The empirical basis of this study consists of two sets of quantitative questionnaire data collected through face-to-face interviews. The first data set was collected in 1998 and 1999 from a sample of 60 Western MNC subsidiaries/units mostly located in Beijing, Shanghai and the Guangdong province. The second set of data was collected between November 2005 and September 2006 and consists of 87 Western MNC subsidiaries mostly located in Beijing and Shanghai. All data was collected from either a top manager or a human resource/personnel manager. Since many of the subsidiaries studied in 1999 had been divested, closed or merged with other MNC subsidiaries, a longitudinal analysis of the 1999 sample was impossible. None of the subsidiaries in this sample were part of both data sets. After controlling for missing values our final dataset consisted of 142 subsidiaries, 83 from 2006 and 59 from 1999.

The data collection process was similar for both data sets, beginning with the compiling of lists of foreign owned subsidiaries from national Chambers of Commerce and other foreign investment bodies. The lists were then complemented using the snowballing method and the authors' existing contacts. Generally, subsidiary general managers were contacted first and the project details were described and confidentiality was assured. These initial contacts were then followed up by telephone to schedule interviews. The interviews were structured so that the interviewer and respondent first completed a standardized, pre-tested questionnaire together. The

questionnaire was in English and the language used during the interviews was English, Swedish, Finnish or Mandarin.

### 3.1 Dependent variable

***Strategic role of the subsidiary HR department.*** I measured the strategic role of the subsidiary HR department by asking the respondents to rate the extent to which *i) the HR department is involved in the strategic planning process, ii) HR managers are viewed by those outside the HR function as partners in the management of business and agents for change, iii) your subsidiary makes an explicit effort to align business and HRM strategies.* The questions, which were adapted from Becker and Huselid (1998) were answered on a 5-point Likert scale where 1 = "not at all" and 5 = "very much". The reliability value (Cronbach's alpha) for this construct was 0.83.

### 3.2 Independent variables

***Year (1999, 2006).*** I measured the change between 1999 and 2006 by including a dummy variable. The companies in the 2006 sample were assigned the value 1 whereas the companies in the 1999 sample received the value 0.

***Background of the HR manager.*** In order to determine the background of the HR manager I asked the respondents from where the HR manager had been recruited. I coded the answers into a dummy variable. Companies in which the HR manager had been recruited from a Chinese company, school, or university were assigned the value 1, and companies in which the

HR manager had international experience, i.e. in another Chinese unit of the own MNC, another MNC, abroad, or other, were assigned the value 0.

***Number of expatriates.*** I measured the relative number of expatriates by dividing the number of expatriates with the total number of employees in the subsidiary.

***Subsidiary size.*** To measure subsidiary size I took the natural logarithm of the number of employees in the subsidiary. I used the logarithm in order to moderate the high variation in size and achieve a more normal distribution for the variable.

***Size of the HR department.*** I measured the relative size of the HR department by dividing the number of people in the HR department with the total number of employees in the subsidiary.

## 5. RESULTS

I tested our hypotheses using OLS multiple regression analysis. The statistical program used was SPSS 15.0. Table 1 provides descriptive statistics and a correlation matrix of the variables in this study. According to Hair et al. (1998) correlations of .90 or above are the first indication of multicolinearity. In this study none of the correlations were .90 or above, and the variance inflation factor (VIF) values were low, between 1.006 and 1.586. This suggests that our model does not suffer from a serious collinearity problem. Table 2 presents the results of the regression analysis with the role of the HR department as the dependent variable ($F= 3.746$, $p<.01$).

**Table 1.** Means, standard deviations and Pearson correlations

| Variables | Means | Std. Dev. | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|---|
| 1. HR manager recruited from Chinese company, school or university | 0.24 | 0.43 | | | | | |
| 2. Subsidiary size (no. employees log) | 5.21 | 1.53 | -.014 | | | | |
| 3. Relative number of expats in subsidiary | 0.05 | 0.10 | -.062 | -.339*** | | | |
| 4. Year (1999, 2006) | 0.58 | 0.49 | .004 | .024 | .117+ | | |
| 5. Relative size of the HR department | 0.24 | 0.26 | .001 | -.591*** | .433*** | .127+ | |
| 6. HR role | 3.27 | 0.90 | -.043 | .204+ | -.068 | .210+ | .044 |

All one-tailed tests. + p<0.10, * p < 0.05, ** p < 0.01, *** p < 0.001

**Table 2.** Regression model

| *Dependent variable: HR role* | | | | |
|---|---|---|---|---|
| | β | t | Sig. | VIF |
| | | | | |
| *Independent variables* | | | | |
| HR manager recruited from Chinese company, school or university | -.045 | -.559 | .577 | 1.006 |
| Subsidiary size (no. of employees log) | .313 | 3.087 | .002** | 1.586 |
| Relative number of expats in sub. | -.093 | -1.025 | .307 | 1.263 |
| Year (1999, 2006) | .182 | 2.222 | .028* | 1.040 |
| Relative size of the HR department | .246 | 2.324 | .022* | 1.730 |
| | | | | |
| R | | | .348 | |
| $R^2$ | | | .121 | |
| Adjusted $R^2$ | | | .089 | |
| F | | | 3.746** | |
| N | | | 142 | |

All two-tailed tests. + p<.10, *p<.05, **p<.01, ***p<.001

I tested Hypothesis 1 to see if the role of the HR department in MNC subsidiaries in China was more strategic in 2006 than it was in 1999. The results were significant ($\beta$ =.182, $p<.05$) indicating support for Hypothesis 1. Hypothesis 2 suggested that the role of the HR department will be less strategic in subsidiaries in which the HR manager was recruited from a local Chinese company or university. I found no significant positive association ($\beta$ = -.045, $p>.10$), which means Hypothesis 2 was not supported. As for Hypothesis 3, contrary to what I suggested there was no significant positive association between the relative number of expats and the strategic role of the HR department ($\beta$ = -.093, $p>.10$). Finally, I tested Hypothesis 4a which suggested that subsidiary size will be positively associated with the strategic role of the HR department. The results were significant ($\beta$ =.313, $p<.01$), indicating support for Hypothesis 4a. Similarly, I found support for Hypothesis 4b, proposing a positive association between the relative size of the HR department and its strategic role. ($\beta$ =.246, $p<.05$).

## 6. DISCUSSION

This study explored the strategic role of the HR department in MNC subsidiaries in China between 1999 and 2006- factors that influence it and how it has changed during this time period. Our empirical data consisted of two sets of quantitative questionnaire data collected in 142 subsidiaries in 1999 and 2006. Our main finding is that the role of the HR department was more strategic in 2006 compared to 1999. Furthermore, our results show that subsidiary size and the size of the HR department were positively associated with the strategic role of the HR department.

In line with previous studies our results suggest that the role of the HR department in the Chinese context is indeed becoming more strategic (Bowen et al. 2002; Braun and Warner, 2002; Zhu et

al., 2005). This would indicate that HR departments in MNC subsidiaries in China are catching on to the general trend within HRM which suggests that the HR department should start taking on a more strategic role. From an institutional perspective this could be explained as a result of mimetic and normative isomorphic processes in the Chinese institutional environment driven primarily by MNCs who view each other as role models regarding how to handle HRM in the Chinese context. Another explanation could be that, as Tung (1995) suggests, HRM in different countries has become more similar as a result of processes of globalization of the HR profession. Björkman et al's (2008b) study indicating a convergence between Chinese HRM practices and the HRM practices in European MNC subsidiaries in China during 1996 and 2006 supports this argument.

Our results also showed that subsidiary size was positively associated with the strategic role of the HR department. In line with our argumentation this suggests that large subsidiaries with more people are more likely to be able to play a strategic role. One reason for this could be that a large subsidiary is likely to have resources to devote to taking care of both administrative and strategic HRM. This is in line with Ulrich (1997) who argues that a prerequisite for the HR department to play a strategic role is that administrative HRM is adequately taken care of. Furthermore, I found a positive connection between the size of the HR department and the strategic role of the HR department. Similarly to subsidiary size this suggests that a larger HR department has an increased possibility to focus on strategic HRM compared to a smaller department. These results should however be viewed cautiously and more research, for example regarding the effect of outsourcing on the role of the HR department, is needed to clarify this.

The results did not provide support for the argument that subsidiaries with more expatriates are likely to have an HR department with a more strategic role than subsidiaries with fewer

expatriates. Although expatriates may act as conduits of HRM concepts and ideas that they have been exposed to through their international networks, and perhaps also through their previous international work experience, our results indicate that this is not necessarily enough to influence the role of the entire HR department. It is feasible that the strategic role of the subsidiary HR department also depends on other things such as the subsidiary HR and general managers' backgrounds and views on HRM, as well as on that of the corporate HR manager.

Contrary to what I hypothesised, the results showed that the background of the HR manager did not influence the strategic role of the HR department. As in the case of expatriate influence on the strategic role of the HR department, it is possible that an HR manager's background is likely to influence his/her own view of appropriate HRM and HRM practices, but that this is not enough to influence the role of the HR department as a whole. In addition to being contingent on the views and backgrounds of other managers, it is likely that the strategic role of the subsidiary HR department also to a large extent depends on headquarters international HRM system, meaning that it is hard for an HR manager alone, irrespective of background, to influence the role of the HR department.

This study is subject to some limitations. Firstly, whilst the 1999 data contained both U.S. and European subsidiaries, the 2006 data set consisted only of European subsidiaries. Secondly, although the use of dual data sets did provide an interesting longitudinal perspective, a limitation of the study is that the companies in the two data sets from 1999 and 2006 are not the same in both cases. Thirdly, I did not control for the MNC's international HRM system (Taylor et al., 1996). The limitations of this study open up some ideas for future work. Additional studies, preferably longitudinal ones of subsidiaries that survive over a period of several years, are needed to examine changes in the role of the HR department in greater detail. Future studies

could also examine how, i.e. through which processes, subsidiary HR departments can increase their strategic role.

Despite of its limitations, this study contributes to the literature on HRM in MNCs by examining the role of the HR department which has received surprisingly little attention in previous research. Furthermore, considering that the work that has been done on the role of the HR department in MNCs has focused almost exclusively on the role of the corporate HR department, another contribution of this study is its focus on the role of the subsidiary HR department. Finally, this study responds to calls made for studies examining the development of HRM in China over time (Zhu, Thomson and de Cieri, 2008). Although this is not a longitudinal study as such, the two data sets from 1999 and 2006 provide an indication of a change over time in the strategic role of the subsidiary HR department in MNC subsidiaries in China.

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