

Employment Practices of MNCs in Organisational Context: A Large-Scale Survey

Report of Main Survey

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Abbreviations and Conventions

EWC	European Works Council
FD	Forced distribution (in performance appraisal rankings)
FDI	Foreign Direct Investment
HRIS	Human Resource Information System
ICE	Information and Consultation of Employees
KG	Key Group
LOG	Largest Occupational Group
MNC	Multinational company
RD	Reverse diffusion
UCC	Ultimate Controlling Company
UK operations	All the operations (subsidiary companies, business divisions, etc.) of an MNC within the UK

Executive Summary

Objectives and Nature of Survey (Introduction)

- This is the first survey of HR practice of MNCs in the UK based on a representative sample. It covers both UK-owned and overseas-owned firms. The sampled population embraces MNCs with at least 500 employees in total. For UK-owned MNCs, there is also a minimum of 100 employees in the UK; for overseas-owned firms, there had to be at least 100 employees in at least one other country.
- The analysis is based on 302 face-to-face interviews with senior HR managers responsible for the UK operations of MNCs.
- The survey examines three key aspects of MNCs in Britain:
 - the strategy, structure and control mechanisms of companies;
 - the structure and role of the HR function;
 - and four substantive areas of employment practice:
 - performance management and reward systems;
 - learning, development and international diffusion;
 - employee involvement, including teamworking, and communication;
 - and employee representation and consultation.
- In asking about practice, the survey distinguishes three groups among the UK workforce. These are managers, the largest occupational group (LOG) among non-managerial employees and – an innovation in the survey – a key group (KG) of employees that are critical to the firm's core competence.

Profile of Multinational Britain: Company Characteristics (Chapter 1)

- MNCs in Britain are a heterogeneous group. They are spread across manufacturing and services in roughly equal proportions. They originate from North America, Europe and to a lesser extent Asia – though the dominance of US firms, which comprise 40% of the sample, is underlined. And they vary greatly in their worldwide and UK employment size.
- In terms of their structures, relatively few MNCs are characterised by a straightforward hierarchical relationship between HQ and operating units. Instead, in most MNCs there are intermediate levels within complex, multi-layered corporate structures.
- In relation to their strategies, the diversified conglomerate type of multinational in which there are few linkages between sites seems to be quite rare (only 5% of the total); rather, there is a high degree of commonality in MNCs' products and services across sites and in the extent of trading relationships between sites.
- In a significant proportion of firms the UK operations appear to play a significant 'strategic' role in that they have international responsibility for products and services and that they are responsible for significant expertise in R&D. In just over half (52%) of overseas-owned firms, UK operations have an international product or service responsibility.
- Eight out of ten firms identify a key group of employees that is critical to the company's core competence.

The HR Function (Chapter 2)

- Means to integrate the HR function internationally are widespread. Of four mechanisms that were asked about:
 - Human Resource Information Systems such as SAP or PeopleSoft are used on an international basis by half (52%) of firms;
 - An international HR policy committees exists in half of firms (53%);
 - Two-thirds (63%) of firms have means to bring together HR managers across countries on a systematic basis;
 - And one-third (31%) of firms use international 'shared service centres'.
- Collection of HR data from subsidiaries is also widespread. More than eight out of ten companies (82%) collect data on three or more of the nine data items identified, and nearly three out of ten (29%) do so on at least seven of these.
- A worldwide philosophy on the management of employees is clearly identified by 61% of MNCs.
- US firms are the most likely to have integrated HR functions, to collect data, and to have a worldwide philosophy. French firms also monitor, through data collection, extensively.

Managing HR: International Coordination and Local Autonomy (Chapter 3)

- The UK operations of overseas-owned MNCs have considerable discretion over a range of matters across the four areas of HR policy and practice on which the survey focused. Exceptions to this pattern are managerial succession planning and employee share ownership, on which UK operations have noticeably less discretion to take decisions independently of global, regional or international business headquarters.
- The overseas operations of UK-owned MNCs are reported to have comparatively less discretion than the UK operations of their overseas-owned counterparts, although the difference is one of degree.
- A lower degree of discretion among overseas-owned MNCs is associated with US ownership; the presence of a matrix structure in the international organisation of the company; extensive monitoring of HR data by international management; and linkages across borders amongst HR managers.
- An international level of management (from global, regional and/or international business headquarters) exercises considerable influence over subsidiaries in two key policy areas.
 - Among overseas-owned MNCs, there is substantial influence over training and development policy in seven out of every ten (71%), and over employee involvement policy in almost half (48%). The exercise of such influence is more common where companies have internationalised HR structures and systems.
 - A similar proportion of UK-based MNCs exercise influence over training and development policy in their overseas operations (74%), but rather more do so over employee involvement policy (75%).
- Parent country nationals occupy one or more of the five most senior management positions in the UK operations in 45% of overseas-owned MNCs. The incidence is highest amongst Japanese MNCs, which are also the most likely to report 3 or more parent country nationals amongst the top five positions, and lowest amongst German MNCs.

Pay and Performance (Chapter 4)

- Most firms pay their managers and KG above the median (65% and 62% respectively); a quarter of firms pay these groups in the top quartile. Over half of firms pay their LOG at the median, but a substantial minority (43%) pay above the median. Only a handful of firms pay any of the groups below the median. UK operations where unions are recognised are more likely to pay above the median.
- Formal performance appraisal schemes for all three groups are very widespread; over nine out of ten firms have them for KG and managers, and over 80% have them for LOG. Only 3% of firms have no formal appraisals at all. Just over a fifth of firms use 'forced distributions' for the results of appraisal. A clear majority of firms use the results of appraisal as the basis of decisions on redundancy and redeployment. US firms are more likely to use appraisal outcomes as a formal input into decisions.
- Individual output measures dominate criteria of performance evaluation for managers, and variable pay criteria for LOG and KG. For managers collective output measures and 'input' measures such as competencies are also important. Around a half of companies have upward or peer appraisal for managers; about a third have it for the KG and around a fifth for the LOG. Such schemes are more common in services than manufacturing.
- Over two-thirds of firms use variable pay schemes for the LOG, a figure rising to 86% for the KG and 87% for managers. The extent of variable pay varies with nationality: US firms are the heaviest users, while Japanese and German companies are less likely to have such schemes. Service firms are more likely to have variable pay than are manufacturers.
- For each of the three workforce groups, between a fifth and a third of firms use share-ownership, stock option or profit-sharing schemes. A substantial minority (43%) of overseas-owned firms have no such schemes at all. US firms are more likely, and Japanese and German firms less likely, to have share-based schemes. Firms with well-developed international HR structures are also more likely to have share-based schemes.

Training and Development (Chapter 5)

- Training expenditure by UK operations averages around 3.8% of the annual pay bill, although this tends to be higher for home-owned MNCs (4.4% for UK MNCs compared with 3.7% for overseas MNCs). There are predictable patterns of variation in training expenditure according to the national origin of the parent MNC; German MNCs have the highest training expenditure overall (6.3% of the annual pay bill), and Japanese companies the least (2.1%). UK MNCs have the third highest training expenditure, which may seem somewhat higher than previous studies would suggest and may reflect the home status of these firms.
- Two-thirds (65%) of multinationals have a succession planning system. The overwhelming majority of these indicate that such systems are global as opposed to locally specific. However, amongst Japanese companies this figure is less than one half. The results are consistent with other work that shows that Japanese MNCs are much less likely than European or US MNCs to involve local managerial employees in international development activity.

- High potential training programmes are adopted by 70% of MNCs, with the majority being worldwide rather than locally specific programmes.
 - The use of a global high potential training programme is more common among those MNCs with integrated production systems.
 - There are marked parent country preferences for how high potential programmes are used, with US and French companies focusing on measuring the performance of high potentials against a common set of global competencies.
- Of companies with a KG, well over a third (38%) also offer a specific development programme to these employees. This training is offered in other parts of the worldwide company in just over half of these companies (52%). There are some variations between the provision made for managers and for KG employees which may be indicative of the differences between the work demands of these two groups.

Employee Involvement and Communication (Chapter 6)

- Firms make extensive use of means to involve employees in the work task and of systems of communication and information provision.
 - Over 9 in 10 (91%) have at least one mechanism of 'direct' participation such as team work.
 - No company uses fewer than two communication mechanisms, and over a third (36%) use eight or nine.
 - Over three-quarters (80%) provide information to employees on the financial position of the enterprise.
- There is extensive learning about involvement practices from elsewhere in the MNC and also from outside it. Seventy per cent of those with direct participation draw on practices from outside the firm. Task forces are also widespread, being reported in three-quarters of firms.
- 'High performance' practices are also common. Two-thirds (64%) of firms use at least five out of a set of nine practices. Very few, however, use all nine, and the practices do not cohere into clear-cut 'bundles'. Firms seem to use distinct combinations to suit their own situations.
- The integration of the HR function is associated with all these involvement and communication practices. Thus, the presence of international HR committees is linked to extensive information provision about the world-wide enterprise, use of task forces, and the number of 'high performance' practices in place.
- Contrary to expectations, US firms do not stand out in their style of communication. They do not place special emphasis on such practices as attitude surveys. And among MNCs as a whole, such practices are used much less than more conventional arrangements such as meetings and briefing groups.

Employee Representation and Consultation (Chapter 7)

- Unions are recognised for the largest occupational group, on at least some sites, in almost half (47%) of firms. US MNCs and those based in the Rest of the World (i.e. outside Europe, Japan and the US) are least likely to recognise unions, whereas German MNCs are the most likely. UK-based MNCs are the most likely to have a mixed pattern, with recognition at some sites and not at others.

- Non-union representative arrangements are found in one-third (34%) of MNCs; in one in three of these cases there are also union-based arrangements at other sites. Japanese MNC are distinctive in having the highest incidence of non-union arrangements.
- There is a discernible trend away from union recognition at new sites, but little change in recognition status following acquisitions. Non-union representative arrangements are becoming more common: one-half (51%) of the MNCs with these had established them within the previous 3 years.
- Four out of every five MNCs (82%) have representative-based consultation arrangements at the level of the UK operation and/or at site or other level. Implementation of the UK's Information and Consultation of Employees legislation has prompted substantial change, with one-third of companies establishing new arrangements at some or all sites over the previous 3 years.
- The multinational of which the UK operation is a part has a European Works Council (EWC) in 28% of cases. MNCs with a EWC are more likely to have internationalised HR structures and systems.

Organisational Learning and Knowledge Diffusion (Chapter 8)

- The international network structure is a key part of organisational learning activities in MNCs. The most common organisational learning mechanism at manager level is the informal network (84% of companies). International project groups/task forces also play a prominent role (73%) followed by expatriate assignments (60%) and international formal committees (53%). Secondments are adopted by only around a quarter of the organisations (26%).
- National preferences in the use of learning mechanisms are apparent. French companies are by far the greatest users of multiple learning mechanisms, and Japanese companies the lowest users.
- Almost two-thirds (64%) of companies have parent or third-country nationals working on long-term assignments (i.e. 12 months or more) in the UK operations. Japanese companies are more likely to rely on parent-country than third-country nationals: the median number of parent-country nationals is 8 compared to only 2 for third-country nationals. In contrast, US, European and Rest of the World MNCs have comparable numbers of parent and third-country nationals (between 2 and 3).
- Reverse diffusion – the development of a practice in a subsidiary of an MNC and its adoption elsewhere in the firm – is extensive. Well over a half (61%) of the UK subsidiaries of overseas-owned firms have provided new practices for the rest of the firm. Figures for the substantive areas covered by the survey are:
 - Training and development: 50%
 - Employee involvement: 29%
 - Pay and performance: 25%
 - Employee representation: 19%
 Japanese companies are the least likely to use reverse diffusion.
- MNCs' learning processes are part of a wider organisational approach that spans horizontal and vertical boundaries. The analysis shows that MNCs adopting multiple managerial learning mechanisms are also more likely to have HR structures for

coordinating learning and learning mechanisms at the employee level, pointing to an integrated approach.

- HR structures are strongly associated with learning and knowledge diffusion, suggesting that the HR function plays an important role in building the social capital of the MNC. Moreover, HR structures are also strongly associated with the incidence of reverse diffusion, further reinforcing the view that the nature of the international HR function shapes the firm's ability to transfer knowledge across borders.

Conclusions (Chapter 9)

- Clear national differences run through the evidence.
 - **US** firms stand out for the low discretion that they grant to subsidiaries, their disinclination to recognise trade unions, and their extensive use of international HR structures. They differ from other firms much less in relation to concrete HR practice.
 - **UK** firms, though often seen as sharing an 'Anglo Saxon' approach with American ones, in fact differ from them in many respects and are often pragmatic in approach, for example in relation to union recognition. The key similarity – and difference from non-Anglo-Saxon firms – lies in extensive use of share ownership schemes.
 - **Japanese** firms allow local discretion and have few international HR structures. They are also the least likely to use formal organisational learning arrangements. The influence of the head office is, however, felt informally, for example through a strong Japanese presence on the UK management team.
 - **German** firms fit expectations in using variable pay comparatively little, investing heavily in training, and favouring extensive engagement with trade unions.
 - **French** firms blend an 'American' stress on HR committees and organisational learning with a 'European' approach in terms of local discretion and a relatively weak overall HR philosophy.
 - **Nordic** firms are the least likely to have formalised their HR structures, and they allow substantial local discretion which they combine with extensive information provision to employees.
 - Firms from the **Rest of the World** – mainly, Canada, South Africa and Australia – share many features with American firms, although fewer with UK multinationals, possibly because of common Anglo-Saxon approaches.
- There are, however, important similarities between firms of different national origins when it comes to concrete HR practice. These may reflect the diffusion of ideas between MNCs and adaptation to common environmental pressures.
- Sectoral differences are far from universal. But service sector firms are the most likely to emphasise the individual assessment of employees (e.g. through variable pay) and the least likely to recognise trade unions.
- The size and age as an MNC of a firm exert much less influence than might be expected. This suggests that there may be generic approaches to HR that do not depend on attaining a certain size or maturity.
- The nature of the international business structure and the degree of integration of operations internationally affect HR practice, for example the extent of organisational learning and the discretion granted to subsidiaries.

- The existence of international HR structures has a strong and consistent link with many aspects of practice. They are associated with extensive organisational learning and reverse diffusion and with limited local discretion.

Implications (Chapter 9)

- Practice is diverse. Some practices, for example international task forces, are very common. Others are less widespread. For example, succession planning – often seen as a defining feature of MNCs – is not used by one-third of firms. Though MNCs are shaped by their business structures, HR practice is not determined by these influences. Firms can still exert important elements of choice. The lesson is to use this evidence to reflect on current practice, and not that certain practices are inherently desirable.
- National origins shape practice, but such influences may be open to change. The distinctive style of Japanese firms, for example, is a lasting characteristic but it can also be set alongside practice in MNCs based elsewhere: is the limited use of organisational learning appropriate, or can lessons be derived from this set of practices? Or does limited local autonomy among US firms constrain organisational learning?
- Given the central role of HR structures, firms may reflect on such issues as who is on HR committees, the role of these committees, and key feedback mechanisms linking these structures with international practices such as succession planning, organisational learning, and reverse diffusion.

Introduction

The activities of multinational companies (MNCs) are at the heart of Britain's internationally open economy. MNCs have long been well established in manufacturing, but in recent years they have emerged as dominant players in the private service sector and have even become involved in the provision of public services. Levels of both inward and outward investment are high: foreign direct investment (FDI) into the UK by companies based overseas accounts for almost 9% of the total global stock while UK-based companies' investments overseas account for over 14% of the global stock. In both instances, the UK is second only to the world's largest economy, the United States. As a result MNCs are significant employers in Britain; for example, 18% of the workforce in the production sector are employed by overseas-owned companies with many more being employed in the domestic operations of British-owned multinationals. Multinationals therefore have a crucial role in shaping employment practice in the UK, a role accentuated by their potential capacity to diffuse policies and practices developed and utilised in their operations overseas and by the influence they exert on their suppliers.

Yet, despite a large number of studies, there is no overall, authoritative picture of the ways in which MNCs in Britain manage their employees. There are two key aspects. The first is what practices are used and how their use varies according to key factors such as MNCs' country of origin, sector of operation and evolving organisational structures in the face of the growing internationalisation of markets and production. The second is the nature of the mechanisms or the means by which employment practice is diffused across borders by MNCs.

This report presents key findings from the first large-scale, representative survey of employment practice in MNCs which have operations in the UK. The survey is comprehensive in its coverage of all but the smallest international companies. The findings derive from interviews with senior HR executives in each of 302 multinationals operating in Britain, both overseas- and UK-owned. The companies surveyed have their headquarters in a wide range of countries, notably the US, Japan, the major continental European economies and the UK; they include companies engaged in production and in services; and they range from MNCs with as few as 100 employees in the UK and/or 500 worldwide to the household-name giants which are most frequently the focus of study.

The survey examines three key aspects of MNCs in Britain. First, it sheds light on the strategy, structure and control mechanisms of companies, enabling patterns of practice to be situated in the light of the organisational context. Second, it considers the structure and role of the HR function within MNCs, including the relationship between UK operations and management at global, regional or international business headquarters. Third, it focuses on four substantive areas of employment practice:

- performance management and reward systems;
- learning, development and international diffusion;
- employee involvement, including teamworking, and communication;
- and employee representation and consultation.

In asking about practice, the survey distinguishes three groups among the UK workforce. Two of these are commonly used in surveys of this kind, namely managers

and the largest occupation group (LOG) among non-managerial employees. The third, the 'key group' (KG), is an innovation in this survey and refers to a group of employees who are identified by respondents as critical to the firm's core competence.

Study design and levels of response

Given the study's focus on relations between the MNC as a wider international enterprise and its activities in UK, the organisational unit identified as the appropriate level to survey was the entire operation of a multinational in the UK. We refer to this as the 'UK operations'. In multi-business companies the UK operations cover all the activities belonging to the ultimate parent company. The smallest MNCs were excluded from the scope of the study. To be included in the survey overseas-owned MNCs had to have at least 100 employees in the UK and at least 500 worldwide. UK-based multinationals had to have at least 100 employees in an operation in another country and at least 500 employees worldwide.

The study was undertaken in two main stages, with the findings from the second stage being the focus of this report. Following a competitive tendering process, KfG NOP Social and Political were commissioned by the research team to undertake initial checks on the listing of MNCs compiled by the team, the technical design of the questionnaire, its piloting, negotiation of access to companies, the actual field interviews and the compilation of the findings into a database for both stages of the study.

The first stage involved a short telephone interview with, as far as practicable, a senior HR manager in the UK operations to verify the eligibility according to the employment size criteria of a 'long list' of multinationals operating in the UK which had been generated by the research team from exhaustive database searches. In those cases (more than two-thirds) where respondents were sufficiently senior, some questions about HR policy and practice were also asked. The findings from these are analysed in a separate report which has already been made available to respondents.

The second stage involved a face-to-face interview with a senior HR manager at the level of the UK operation in a sub-set of those companies which the telephone screening exercise had verified as meeting the eligibility criteria for the survey.

At the first stage, 3099 multinational companies were identified from the database searches as being potentially eligible for inclusion. Filtering proceeded as follows:

- 951 were subsequently excluded, the main reasons being that they turned out to be owned by the same ultimate parent company as another 'UK operation' in the database (168 cases); that the screening interview established that they did not meet one or both of the employment size criteria (488 cases); or that they were simply not traceable (277 cases).
- Of the remaining 2148 potentially eligible companies. Telephone screening interviews were completed with 931, representing a response rate of 43 per cent.

Nine out of every ten of the companies successfully screened agreed in principle to an approach for a subsequent in-depth interview, but in practice second-stage interviews were undertaken at all those MNCs where an interview could be arranged. This totalled 302 companies, which after discounting a handful of cases from the first stage where the data proved unusable, represented a response rate of 33 per cent. The interviews, which followed a structured questionnaire, took place between December 2005 and June 2006. The average length of an interview was 75 minutes.

Comparison of the profile of the companies participating in the two phases of the study against the key parameters of country-of-origin, sector, worldwide employment size and UK employment size, revealed that MNCs in the service sector were comparatively under-represented in the main (second-stage) survey while those in manufacturing were comparatively over-represented. To correct for this, the findings in this report have been weighted to reflect the sectoral profile of the companies which were successfully screened.

The two groups of companies in the sample offer differing perspectives. Overseas-owned firms are represented by subsidiaries of firms headquartered elsewhere. UK-owned firms have their headquarters in the UK. We used different sets of questions, which are reflected in this report as follows:

- Questions on the existence of certain practices are generally identical, and results are combined.
- Many questions address the same issue but from different perspectives. For example, overseas-owned firms were asked whether there was a UK representative on any international HR committee, while we asked in the UK firms about representatives from outside the UK. Results from these questions are reported alongside each other.
- We asked some additional sets of questions only of UK-owned firms, for example about the discretion of operations outside the UK. For reasons of space we therefore omitted some other questions from the questionnaire for UK firms, for example about policy in relation to the Key Group; data on these questions are thus presented only for overseas-owned firms.

Details of the design, methods and outturn of the survey are available in a separate document available at

<http://www2.warwick.ac.uk/fac/soc/wbs/projects/mncemployment>.

Structure of the report

The report starts by profiling the main contours of the MNCs in terms of their country of origin, sector, employment size, length of establishment in the UK, business strategy and organisation structure (Chapter 1). The nature of the KG is also summarised. Chapter 2 then examines the nature of the HR function, including the relationship between the UK operations and the international enterprise. A key issue in the management of an MNC's operations is the extent to which country operations are able to act autonomously on HR and employment matters or are subject to standardised policies and procedures promulgated by the corporate centre, be it global, regional or international business headquarters. This, and the form that any such influence takes, are addressed in Chapter 3.

This is followed by four chapters (Chapters 4-7) which examine the four substantive aspects of employment practice on which the survey focused (see above). Chapter 8 reviews findings on the critical processes of organisational learning and international diffusion of practice, both 'forward' from the country of origin to overseas operations and in 'reverse' from the latter to the former. Overall conclusions from the study are drawn in Chapter 9.

Reported differences in employment practice according to various features of MNCs are statistically significant, at the 90 per cent or higher level of probability, unless otherwise stated.

Chapter 1

Profile of Multinational Britain: Company Characteristics

In this chapter we address two important aspects of the survey. The first is that to understand the nature of employment practice in MNCs, we must first establish how MNCs are organised. Are they hierarchical, in which case practice may proceed by top-down instruction? Or do they adopt a matrix structure that allows the diffusion of practice between operating companies?

To address such questions, this chapter focuses on three specific aspects of the organisation of MNCs.

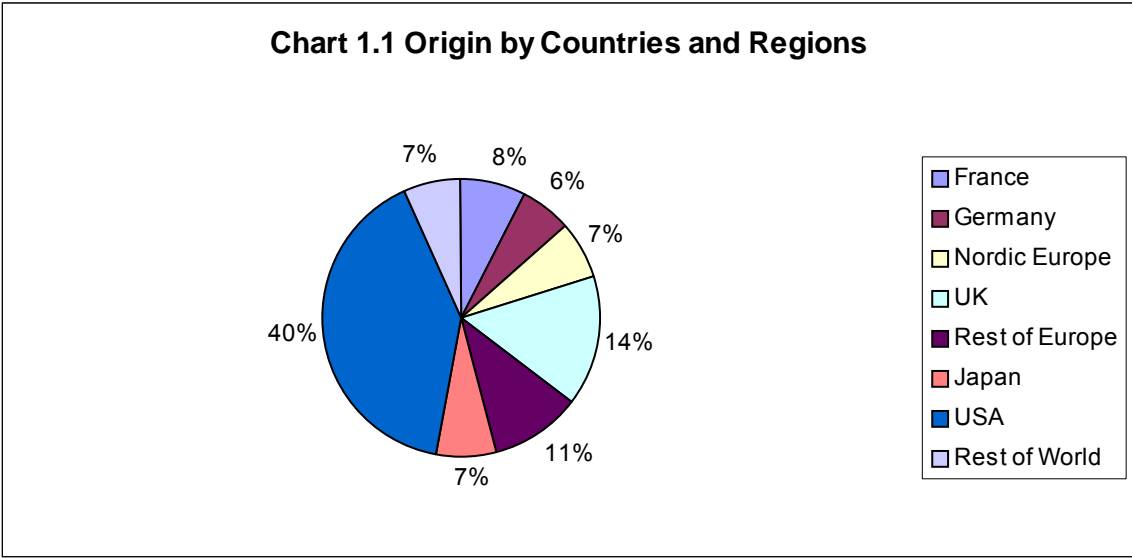
- The first is to identify a number of firms' core features, such as their nationality, size and sector.
- A second goal is to chart some aspects of the strategies and structures that MNCs have adopted. Are they firms that are standardised and integrated across borders or are they differentiated and diffuse?
- A third issue concerns the role that the UK operations fulfil within the wider firms. Do the British sites perform low value-added activities with little 'strategic' role or are they important parts of the company with international responsibilities for product development or R&D?

We look to shed light on these three issues and use them to assess the character of MNCs in Britain. In the conclusion we assess whether some well-established stereotypical images of MNCs are justified in the light of this evidence.

The second aspect of the survey that we address is an important innovation in this study, namely whether the firms recognise a 'key' group of workers who are central to the core competencies of the organisation. In asking about such a group we are careful to distinguish it from the categories of 'managers' and the 'largest occupational group' which also feature in the rest of the survey.

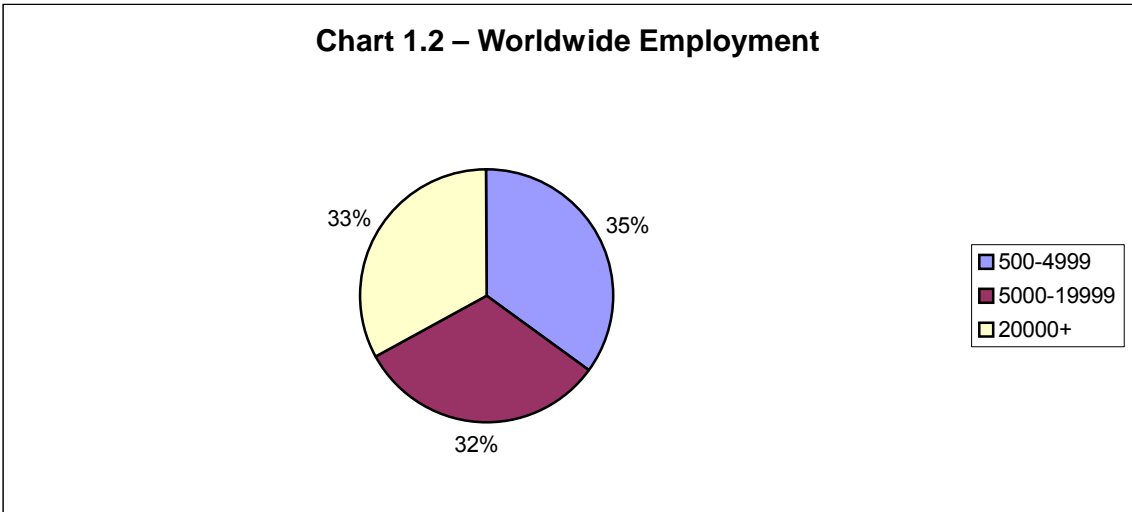
Basic Characteristics

Country of origin. An important contextual variable in analysing MNCs is the country of origin; a large body of evidence testifies to the way in which the nation in which the multinational developed shapes the orientation of even highly internationalised firms (e.g. Ferner, 1997). The scale of American MNCs in the British economy is confirmed by the data, with just over 40% of all of the firms in the survey being of US origin. In addition, very nearly a third originate in Europe, with French (8%), Nordic (7%) and German (6%) constituting the three biggest groups within this category. Japanese firms (7%) were also present in significant numbers. We also have 45 indigenous MNCs in the dataset. Overall, the importance of the 'Triad' of the US, Europe and Japan shows through in these data with only 7% of MNCs in the survey coming from the Rest of the World.



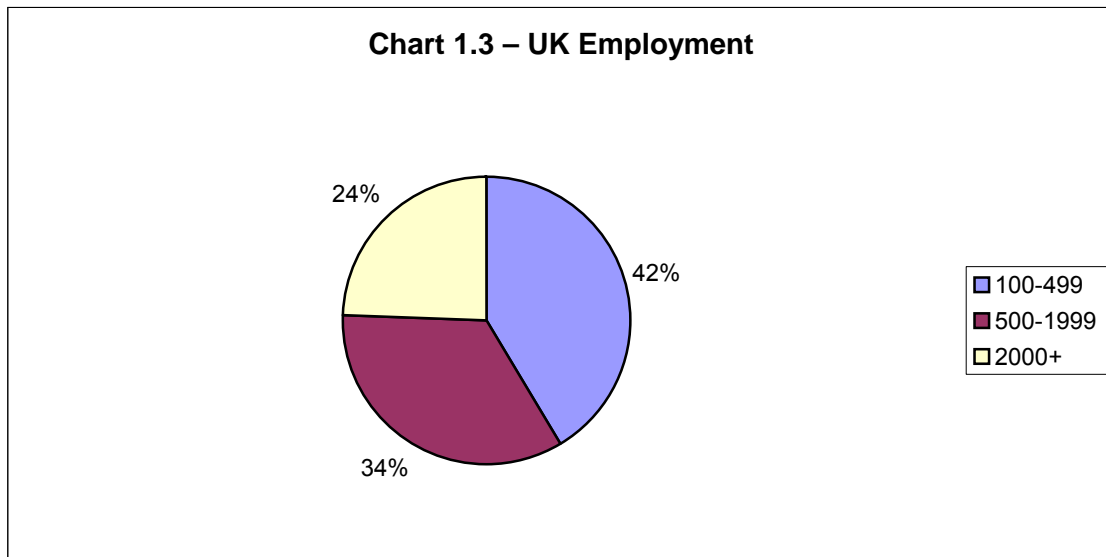
Base = all companies, N = 302 weighted cases

Size of firm. The importance of the size of the firm is that larger firms tend to be characterised by greater use of formal HR policies. We have two measures of size. The first of these is worldwide employment. The average size by worldwide employment is 31,363, with the smallest firm employing just over 600 and the largest just over 700,000. For subsequent analysis the firms are categorised into three size bands (see Chart 1.2). There is some national variation around the mean, with German MNCs (57,288) and Japanese (45,089) both being substantially larger, while French (39,842) and American (38,857) are slightly bigger than the average. In contrast, MNCs from the Nordic area (12,856) and the Rest of the World (17,916) are smaller than average. The British MNCs in our survey employ an average of 11,819 people worldwide.



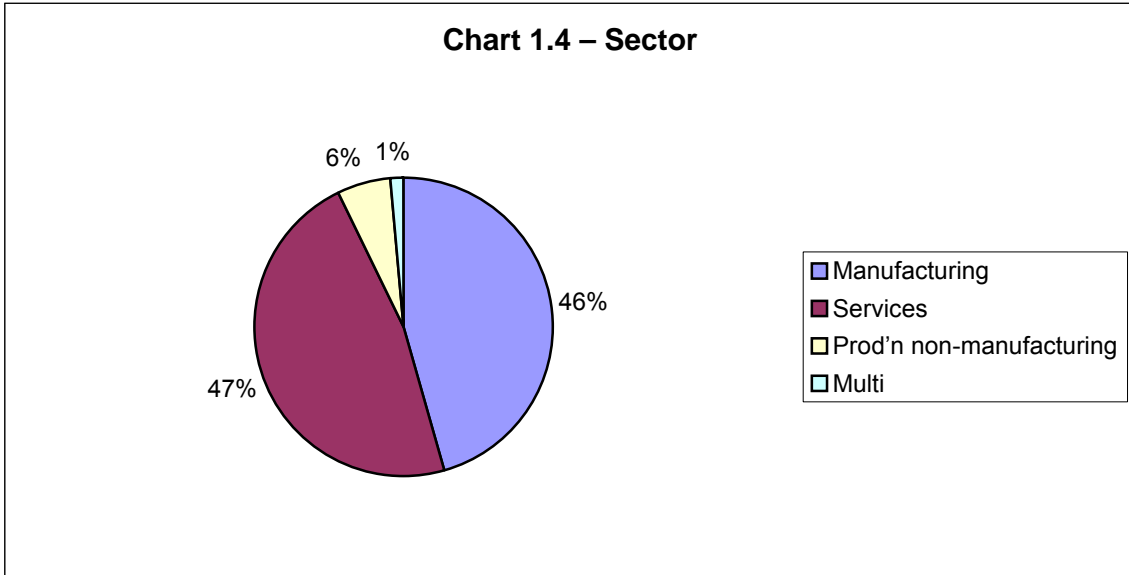
Base = all companies, N = 272 weighted cases

The other measure of size is UK employment, for which the mean is 2,133. The lowest figure is exactly 100 (the minimum for firms to be eligible for the survey) and the largest is 50,000. Once again, the firms are grouped into three size bands for subsequent analysis (see Chart 1.3). Among the overseas-owned firms, the French (4,635) are the largest with the Americans (1,588) the next largest. MNCs from the Rest of the World are the smallest (735) and all of the other groupings are at around the 1,000 mark. Unsurprisingly given the importance of the home country, British MNCs are bigger (5,286) than overseas firms by this measure.



Base = all companies, N = 300 weighted cases

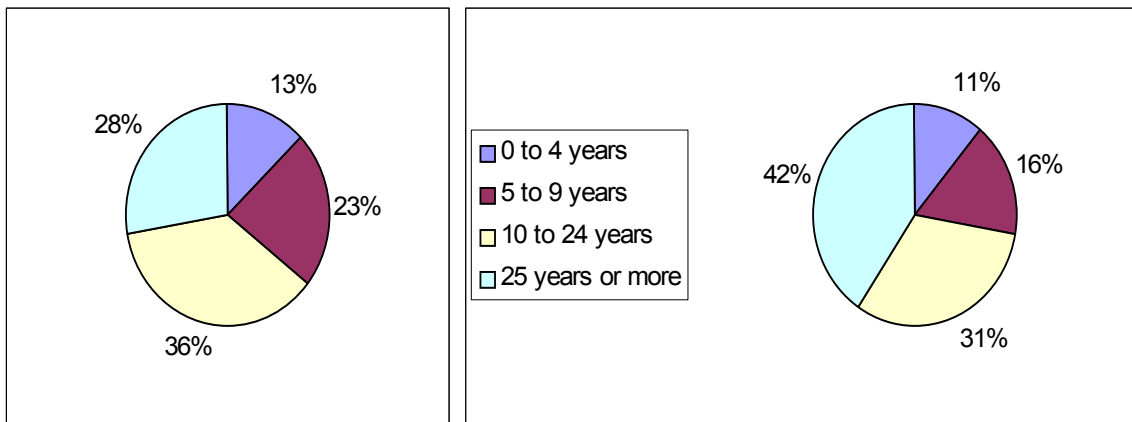
Sector. Third, the sector is another important contextual factor. Patterns of employee representation, for example, tend to vary between broad industrial sectors. Although the manufacturing sector in the UK accounts for as little as 15% of GDP, MNCs in Britain are broadly evenly split between manufacturing and services. In addition, there are 6% of MNCs in production non-manufacturing (sectors such as primary, utilities and construction) and 1% that are classified as multi-sector. The relationships between sector and nationality are not strong, though Nordic and Japanese firms are more likely to be in manufacturing and British MNCs are more likely to be in services. By worldwide employment, services firms are substantially bigger at nearly 41,000 compared with manufacturing at just under 23,000. By UK employment, in contrast, there are almost no sectoral differences.



Base = all companies, N = 302 weighted cases

Time as an MNC. The length of time that MNCs have been in Britain is relevant partly because it serves as a proxy for the extent to which they are influenced by the traditional patterns of employment relations in the UK. The data on 'vintage' for overseas MNCs indicate the variety in the length of time that MNCs have had a presence in Britain (see Chart 1.5a). One in eight firms have been in the UK for less than five years and just under one in four for between 5 and 9 years. Just over a third has had a UK presence for between 10 and 24 years and just over a quarter for 25 years or more. For UK MNCs the data are not comparable since the question relates to the length of time that UK MNCs have been present in other countries (see Chart 1.5b). This shows that just over one in ten have operated internationally for less than

Chart 1.5 – Vintage



Base = overseas-owned: years in UK, N = 257 weighted cases

Base = UK-owned: years as MNC, N = 45 weighted cases

five years and one in six for between 5 and 9 years. Nearly a third has had operations in other countries from between 10 and 24 years and just over four out of ten for 25 years or more. There were no significant associations between vintage on the one hand and nationality, sector and size on the other.

Global spread. Our final contextual factor is how widely spread MNCs are across countries. Our data provide two indicators of this, both of which suffer from some missing data. The first is the proportion of employees that work in the country of origin. On average, the domestic workforce comprises 46% of total employment for the 202 companies for which we have data. Among overseas-owned firms this average was highest in American MNCs (54%) and lowest in those from the Rest of Europe (16%) and the Nordic area (28%). UK MNCs in our dataset have 56% of their employees in the home country. Overall, these data chime with other sources that have charted the continuing embeddedness of MNCs in their country of origin (Hirst and Thompson, 1999).

The other measure of how widely spread MNCs are across countries is an index of employment across four regions. The percentage of total employees that are based in Europe, North America, Asia and the Rest of the World were added together to calculate a measure of global spread. This takes on a minimum value of 0.25 (or 25%) which represents employment being evenly spread across all four regions and a maximum value of 1 which is found where all employees work in one of the regions. In other words, the closer to 0.25 is the figure, the more widely geographically spread are the firms; in contrast, a figure closer to 1 corresponds to the firms being concentrated geographically. The figure for the 150 firms in which we have complete data is 0.55. UK MNCs were the most highly globally spread with an index of 0.68. Amongst overseas-owned MNCs there is some national variation with Nordic (0.65) the most widely spread across regions and Japanese (0.45) and American (0.49) the least.

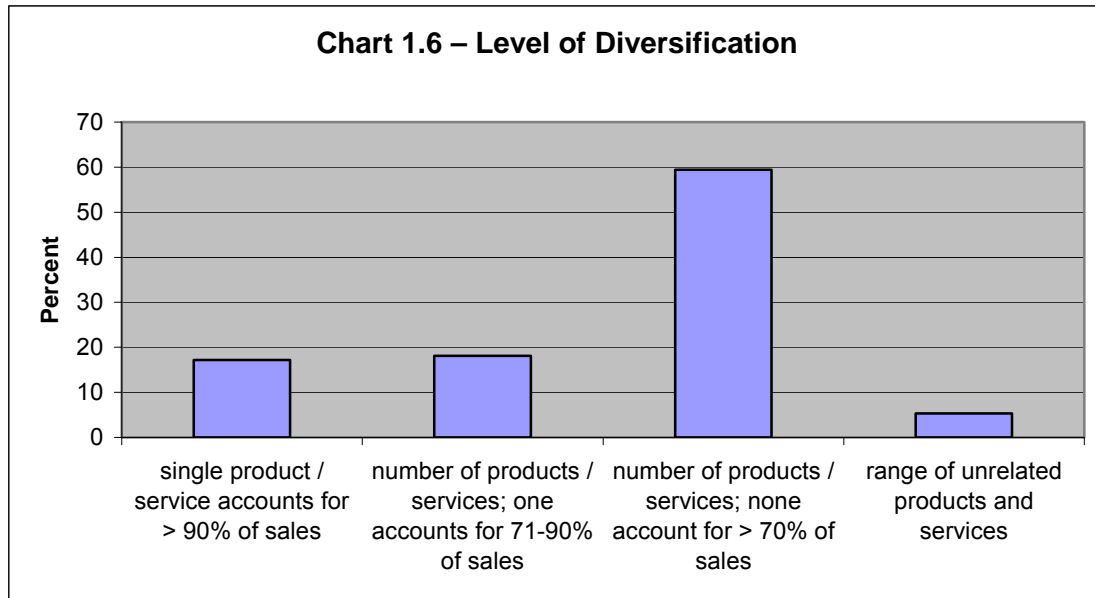
Overall, this profile of the basic characteristics of MNCs in Britain indicates that they are characterised by considerable diversity. While they originate mainly from the Triad countries and the US is by far the biggest country of origin, there are nevertheless a variety of parent nationalities in evidence. The diversity is even clearer in relation to sector, size and vintage. In the next section we turn to consider some measures of the strategy and structure of MNCs and examine the extent to which these are related to the basic characteristics we have reviewed in this section.

Indicators of Strategy and Structure

In this section we examine four measures of the strategies and structures that MNCs exhibit.

The level of diversification across sectors is a key indicator of the extent to which MNCs' operations are focused on particular activities on the one hand or diffuse on the other. The survey data indicate that most MNCs in Britain have multiple products or services; respondents in very nearly six out of ten firms said that the UK operations produced 'a number of products or services but no single one accounts for more than 70% of sales'. The multi-product nature of these firms does not make them conglomerates, however, as only one in twenty describe themselves as producing a 'range of unrelated products'. Thus it is clear that the vast majority of MNCs in Britain either produce a range of related products and services or have one dominant product or service.

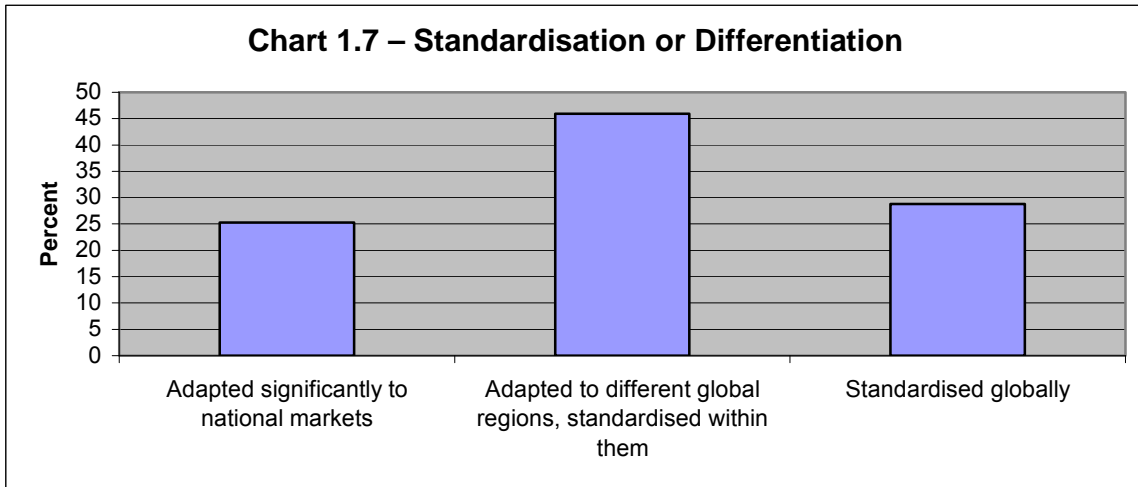
Examination of the relationship between diversification and the basic characteristics of the firms reviewed in the previous sub-section demonstrated that older MNCs are more likely to be diversified. However, diversification is not associated with nationality, sector, size or global spread.



Base = all companies, N = 299 weighted cases

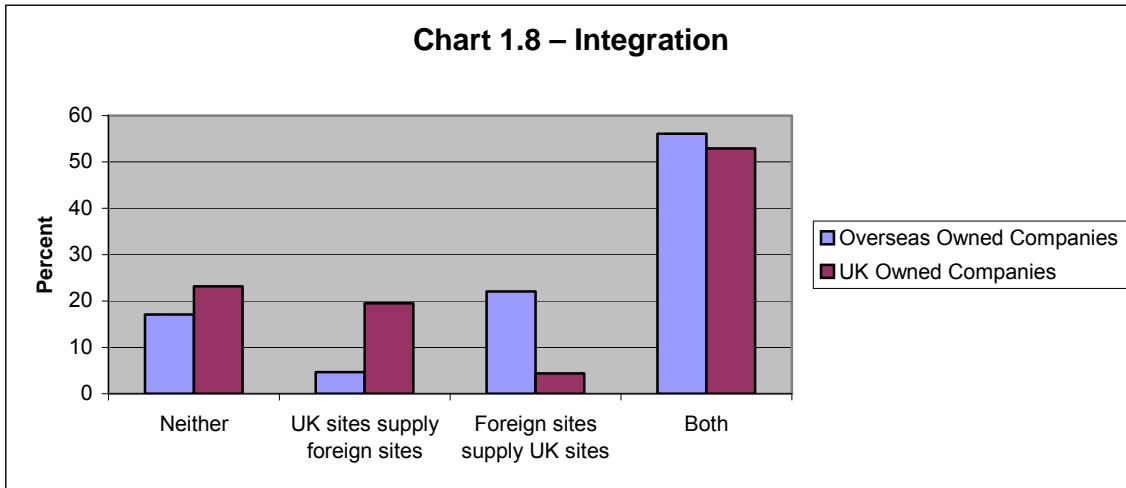
Standardisation. A further dimension of the strategies of MNCs is the degree of international standardisation of their products and services. It is likely that those firms with a standardised product will tend to standardise some management functions, such as HR (see Chapter 2). The data on this issue point to the importance of regional standardisation; respondents in nearly half of the firms said that they ‘adapted to different regions but standardised within them’. Around a quarter say that the product is ‘adapted significantly to national markets’ and another quarter say it is ‘standardised globally’.

One source of variation is by nationality; British firms stand out in being more likely to adapt to national markets and less likely to standardise globally. A further source of variation is by global spread; those firms that are most concentrated in one region are also more likely to adapt to national markets.



Base = all companies, N = 288 weighted cases

International integration is assessed by the way in which the UK operations are integrated into wider processes of international production or service provision, providing an indicator of the inter-dependencies within MNCs. This is a key factor influencing the motivation that firms have to develop common HR policies across borders (Marginson et al., 1995). The data allow an assessment of the extent to which UK operations supply sites in other countries with a component or service and, conversely, the extent to which sites in other countries supply the UK operations.



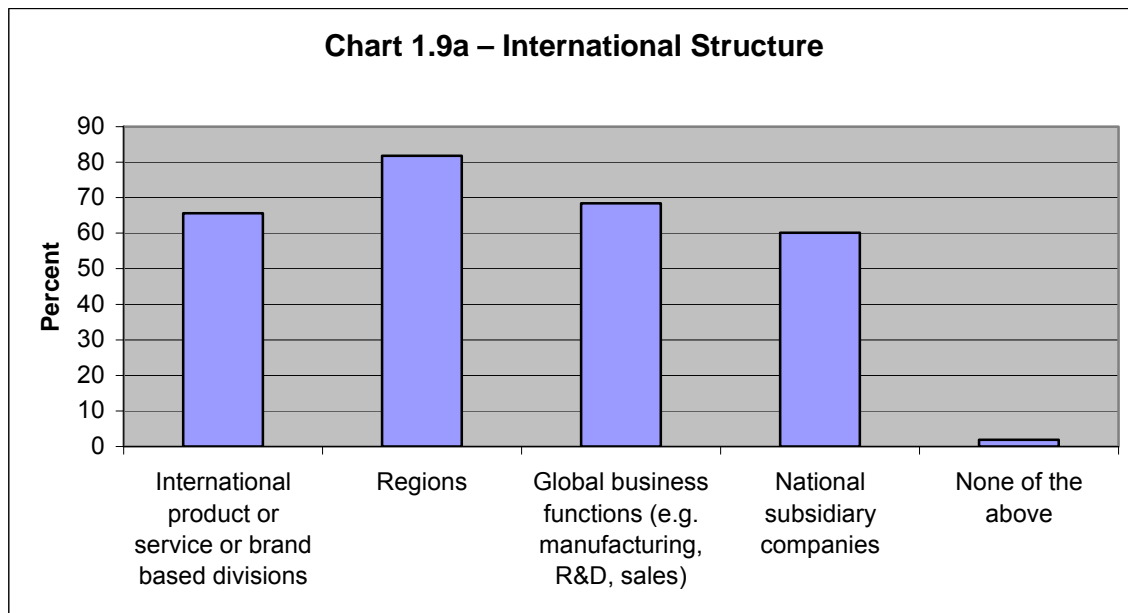
Base = overseas only, N = 251 weighted cases Base = UK only, N = 45 weighted cases

Given that this is not measuring exactly the same thing in overseas and UK firms, the data are presented separately. A strikingly high level of integration is in evidence for both groups. In over half, there are linkages in both directions. In the remaining quarter or so there are linkages in one or other direction. Unsurprisingly given that this is measuring something conceptually different, where there is a linkage in only one direction, in overseas MNCs this consists of sites outside the UK supplying the British

ones whereas in UK MNCs it takes the form of the British sites supplying those based elsewhere.

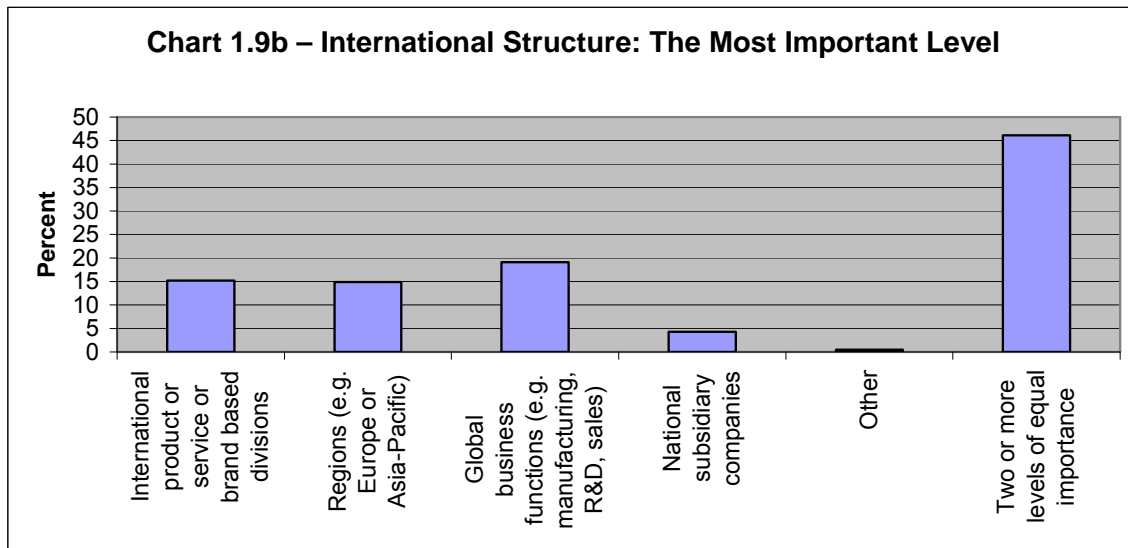
Those firms that are integrated in both directions are commonly American or Japanese rather than from other regions or countries. They are also in manufacturing rather than services and large (by both UK and worldwide employment) rather than small.

International business structures. The significance of this dimension lies in the extent and nature of linkages between managers in different parts of the firm across countries. The data shed light on the prevalence of a number of possible international structures of MNCs, such as international divisions, regions, global business functions and national subsidiary companies. The regional level appears to be the most widespread across MNCs, being a feature of the company structure in 82% of firms (see Chart 1.9a).



Base = all companies, N = 302 weighted cases

The data also demonstrate the multiple levels that exist in most of the firms: the vast majority (78%) have more than one of these levels and more than half have all four. We were keen to explore which level was considered to be the most important in firms with multiple levels within their structure. In nearly half of these firms (46%) there is more than one level and the respondent did not see any one of these as being any more important than the others, suggesting that a hybrid structure is quite widespread. Where the respondent identified one of the levels as either the only one or the most important, this was fairly evenly spread across international divisions, regions and global business functions. Chart 1.9b summarises this complex picture. There are few associations between these data relating to the most important level and the basic characteristics we examined in the previous sub-section, though larger firms by UK employment are less commonly part of a hybrid structure.



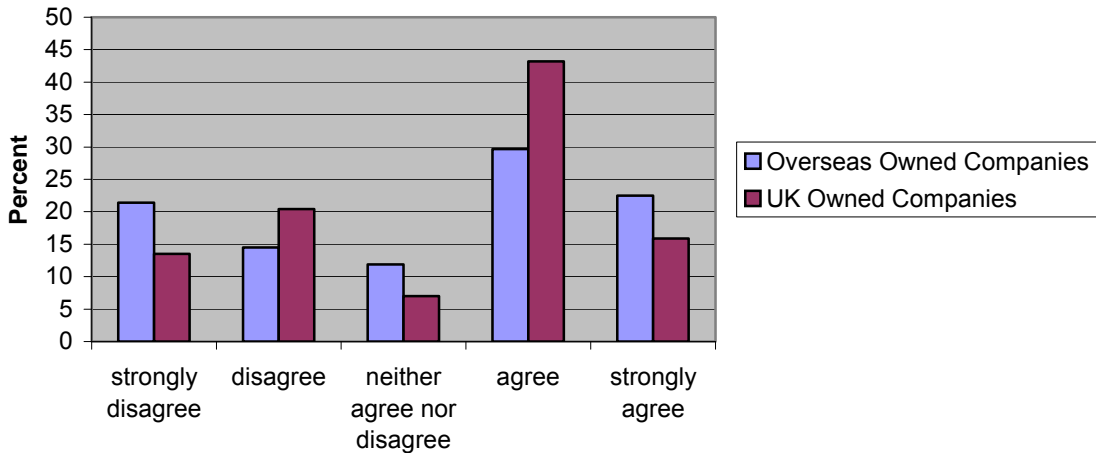
Base = firms with more than one of the structures, N = 235 weighted cases

How were these four dimensions of strategy and structure related to one another? In a number of ways the variables are not correlated. The structure of companies and the extent to which they are diversified are not significantly related to the other measures of strategy. However, one clear relationship was that firms that are integrated across borders more commonly have standardised products globally or regionally. This suggests that there is a sub-set of integrated and standardised MNCs that are most likely to develop common HR policies across their sites in different countries and another sub-set of segmented and differentiated MNCs in which the incentives to do this are correspondingly lower.

The Role of the UK Operations in International Context

An issue that is related to the strategies of MNCs is the role of the British operations within the wider firms. A key factor in shaping the sorts of employment practice in the UK sites is whether they play a 'strategic' role or not. One measure of this is the extent to which the international responsibility for one or more products or services resides in the UK. Just over half (52%) of respondents in overseas-owned firms indicated that they agreed or strongly agreed that they had such a 'mandate' (Birkinshaw, 2000). One doubt about this finding is that it might reflect a tendency for managers in the UK to emphasise the importance of their own operations within the wider firm. However, a comparable question for British-owned MNCs provides reassurance on this; nearly 60% of respondents in this group of firms said they agreed or strongly agreed that international responsibility for one or more products or services lay outside the UK. Therefore, the data suggest that 'international mandates' are quite commonly held outside the country of origin. Examination of the associations between this and the variables in the previous sub-sections indicated that mandates are most common in firms that are in the manufacturing sector and that are integrated internationally.

Chart 1.10 – Role of UK Operations: International Responsibility for Products and Services

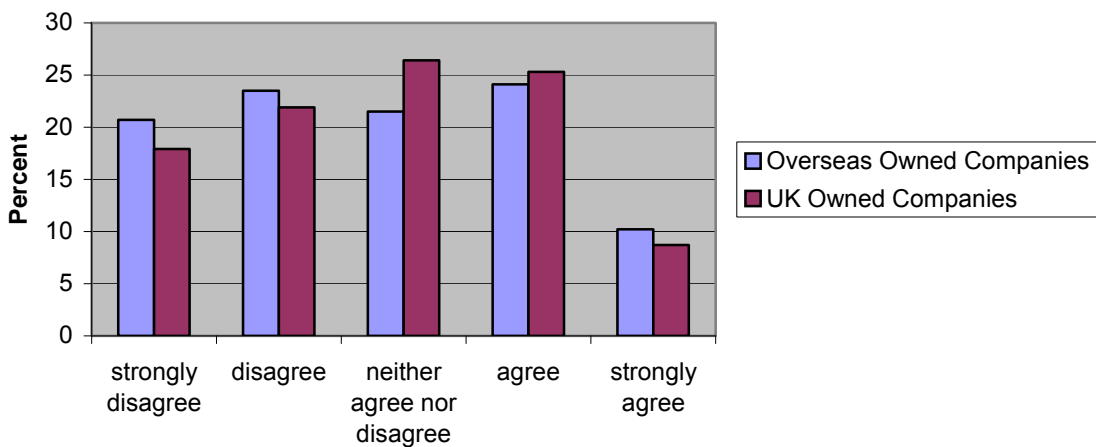


Base = overseas companies, N = 257 weighted cases

Base = UK companies, N = 45 weighted cases

A second measure of the role of the UK operations is whether they carry out R&D. A third of the respondents in overseas-owned MNCs agreed or strongly agreed that significant expertise in R&D within the worldwide company had been generated in the

Chart 1.11 – R&D and the Role of the UK Operations



Base = overseas MNCs, N = 256 weighted cases

Base = UK MNCs, N = 44 weighted cases

UK operations. As was the case with international mandates, one objection to this finding might be that it is based on the perception of a UK-based manager who may not be aware of the nature of R&D within the wider firm. The same reassurance is clear

on this issue, though, with an almost identical proportion (34%) of respondents in British-owned MNCs saying that they agreed or strongly agreed that significant expertise in R&D had been generated outside the UK operations. While R&D appears to be more home-country centred than mandates, there is a significant minority of firms in which it takes place outside the country of origin. Interestingly, as is the case for the issue of mandates, firms in manufacturing and which are integrated across borders are those in which R&D is most commonly outside the country of origin.

Unsurprisingly, these two measures of the role of the UK operations are significantly associated with each other; those firms in which international responsibility for products and services resided in Britain were also those most likely to carry out R&D. As we know from the above analysis, this sub-set of firms tends to be integrated manufacturers.

The 'Key Group'

As noted in the introduction to this study, a major innovation in it was to ask whether a company recognized a 'key group' of employees. The idea here, drawing on the Resource Based View of the firm (Wright et al., 2001; Boxall and Purcell, 2003), is that certain skills and abilities may reside in a relatively small but critical group of employees. The R&D labs of a pharmaceuticals company would be an obvious example. We thus asked whether the firm identified a group of employees 'critical to your company's core competence', giving a number of examples. It was also stressed that we were not focusing on managers but rather on a group with a distinctive competence, though this could embrace managers if they were felt to be such a group. We then sought details of this key group such as its size and composition.

This approach has not been used before in surveys of this kind, and we were thus uncertain as to what we would find. A limited array of questions about the management of the key group was thus asked, primarily in relation to pay and training and development. Because of the experimental nature of the issue, and because of the importance of other issues, questioning in the UK-owned firms about the key group was restricted to presence and composition.

Presence of a key group

The great majority of firms (80%) identified a key group. Virtually all the UK-owned firms (95%) had such a group. This may reflect the fact that we were asking about the whole of a firm's operations, whereas overseas-owned firms may have a group only in their headquarters operations. A group was least likely among Nordic and Japanese firms (57% and 67% respectively).

Identification of a key group was very widespread. It might be expected that they would be most common among manufacturing firms, where distinct technical skills are often important. To the extent that a key group plays a core role, groups might also be more common in integrated than in more diversified firms. There were in fact no associations of this kind: the presence of a group was equally common in small and large firms; in the service and the manufacturing sectors; and among diversified and non-integrated, and single-product and integrated, firms.

One key association stood out, however. Given that the key group represents a core competence, firms with key groups might be expected to perform research and development in the UK. We found that this was the case. Of those with a key group, 40% agreed or strongly agreed that the UK operations generated significant expertise

in R&D, compared to 21% with no key group. As explained below, we tested this association in a number of ways, and found it to be robust.

Nature of key group

As for the nature of the key group, about half of those with a group identified only one while the remainder had more than one. Of the latter, the majority identified distinct groups in relation to their function, not their mere size. Virtually all (89%) of those with a group said that it existed in the worldwide company as well as in the UK.

We asked for the type of employees who composed the key group and then categorized the replies. (Where there was more than one group, we asked about the group with the skills and capabilities that were most difficult to replace). Responses suggested that the key group was a distinct and meaningful category, with specific occupations such as software designers, engineers, and account executives being identified. We categorized the replies into the groups shown in Chart 1.12. As can be seen the largest category embraced R&D staff, designers, and engineers – a group we have labelled as ‘technical’. Sales and customer-oriented staff came next; we decided to distinguish between specifically sales-related activities and those with a broader customer focus such as account executives. ‘Managers’ represented 14 per cent of the total, but these were not managers in general but a group defined by level or function such as managers of a product line.

As might be expected, manufacturing firms were more likely than service firms to identify a technical key group (46% against 29%). Having a sales-based key group was, however, unrelated to sector. Indeed, three-quarters of those with a key group identified sales staff as part of it. This may be one indicator of the importance of the marketing function in multinational companies.

Chart 1.12: Characteristics of the key group

	Percent
Technical staff	33
Sales-related staff	10
Other customer-oriented staff	8
Both technical and sales	6
Senior managers	6
Other managers	8
Operational and support staff	6
Shopfloor staff	4
‘Key group’, no other details	6
Vague or unclassifiable	14

Note: Base is firms with a key group (N = 237 weighted cases)

Twenty per cent of respondents did not name a key group in an exact way. It is possible that among these firms a distinct group with a specific competence was only weakly recognized. We therefore placed them along with those naming no group, and compared this set of firms with those with a clearly identified key group. The associations reported above remained largely unaltered. In particular, the linkage with R&D activity by the UK company remained clear. This linkage was also evident when we compared firms with and without a technical key group. Perhaps the starkest

comparison is among overseas-owned firms, where we are comparing like with like and focusing on a subsidiary's contribution to overall company R&D. Here, 51% of those with a technical key group saw the R&D contribution as substantial, compared to 31% of those without such a group.

A further indicator of the salience of the key group is its size. A group large in absolute or relative terms might imply that it is seen as important because of its size rather than its critical role. In fact, however, numbers in the key group were small, with a median size of about 40. The smallest number of employees in the key group was put at five.

Conclusion

What can be said by way of an assessment? We return to the two issues with which we began the chapter. The first of these is the way in which MNCs are organised. On this we have drawn three conclusions.

- First, MNCs in Britain are clearly a heterogeneous group. Whereas two decades or so ago we might have expected the manufacturing sector to be the main location for MNCs, now they are spread across services as well. Moreover, while US firms have a long history of expanding into the UK, those from other parts of Europe are almost as numerous today. MNCs in Britain also vary greatly in their size the survey is well-placed to tell us much about the small- and medium-sized MNCs that are infrequently studied.
- Second, the picture in relation to their structures and strategies suggests that some stereotypes of MNCs are no longer accurate, if they ever were. For example, the model of a straightforward hierarchical relationship between HQ and operating units seems to characterise very few firms; rather, they comprise multiple intermediate levels within complex, multi-layered corporate structures. In relation to their strategies, the diversified conglomerate type of multinational in which there are few linkages between sites seems to be quite rare; rather there is a high degree of commonalities in their products and services across sites and in the extent of trading relationships between sites.
- Third, in a significant proportion of firms the UK operations appear to play a significant 'strategic' role in that they have international responsibility for products and services and that they are responsible for significant expertise in R&D; in others, in contrast, there is little in the way of a strategic role. Is there any link with the nature of the HR function? This is the focus of the next chapter.

On the second issue, we have established that the vast majority of firms identified a 'key group' and that such a group is particularly likely to exist in firms which conduct R&D in the UK. We also know that employees in this group are commonly developed through formal qualifications programmes and short-term international assignments. Moreover, we have shown that firms with a key group have a distinctive HR function in that they are more likely to have international HR information systems, to use 'shared services' centres and to have an international HR policy making committee. It is the nature of the HR function that we study in more detail in the next chapter.

Chapter 2

The HR Function

In the previous chapter we examined the heterogeneous nature of MNCs in the UK economy in terms of their basic features and in terms of the strategies and structures that they have followed. Is this diversity also in evidence in relation to the role of the human resource (HR) function?

Much research into the roles of national operations within MNCs has distinguished between those that are autonomous, those that are controlled from above and those that are the source of information and resources for other sites (e.g. Gupta and Govindarajan, 2000). We might envisage a number of possible scenarios in considering the role of the HR function in the UK operations.

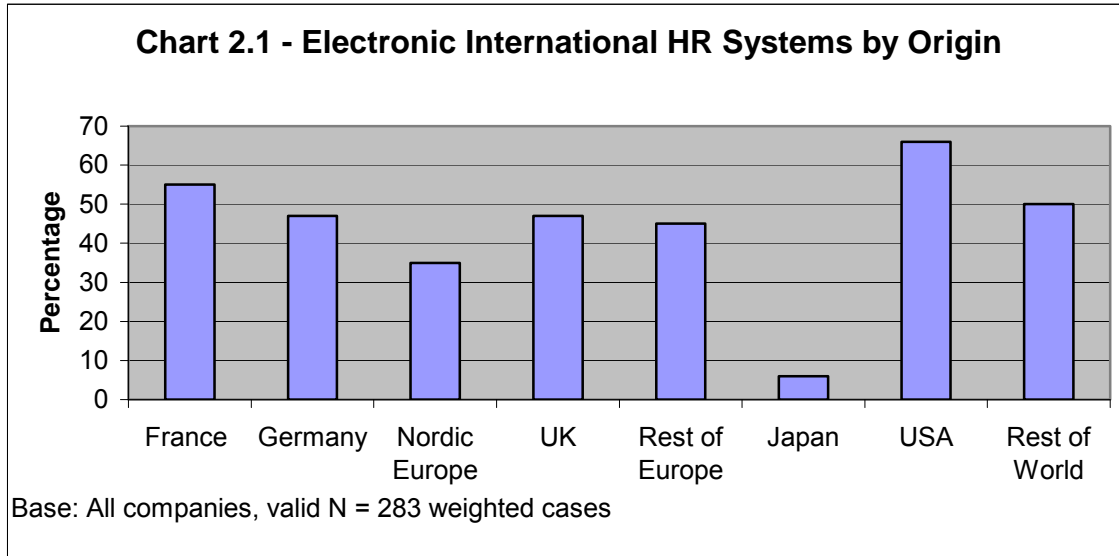
- The first is that the UK HR function might be left to their own devices, reporting to senior management in the UK but not to any significant degree to HR managers outside Britain. That is, it might be *autonomous from the rest of the multinational*.
- Second, it may be tightly controlled by higher levels of management, being monitored closely in terms of outcomes and subject to the influence of policy-making bodies at regional, divisional or corporate level. In other words, it may be that it is a *local implementer of policies designed outside the UK*.
- The third is a variant of the second in that the UK operations might also have some input into the development of international HR policies rather than having them imposed from higher levels. This can be thought of as the UK HR function being a *participant in an international network*.

In order to shed light on these scenarios, we address a number of features of how the HR function operates. In particular, we look at some aspects of the organisation of the international HR function, such as the mechanisms that the firm has that might facilitate a coordinated approach to HR across borders, the nature of HR policy-making bodies and the extent to which HR staff are brought together across borders. We also present data concerning the extent to which the UK operations are monitored by higher levels of management on employment issues and we end the chapter with an examination of the respondents' views concerning the extent and nature of an international philosophy on the management of employees.

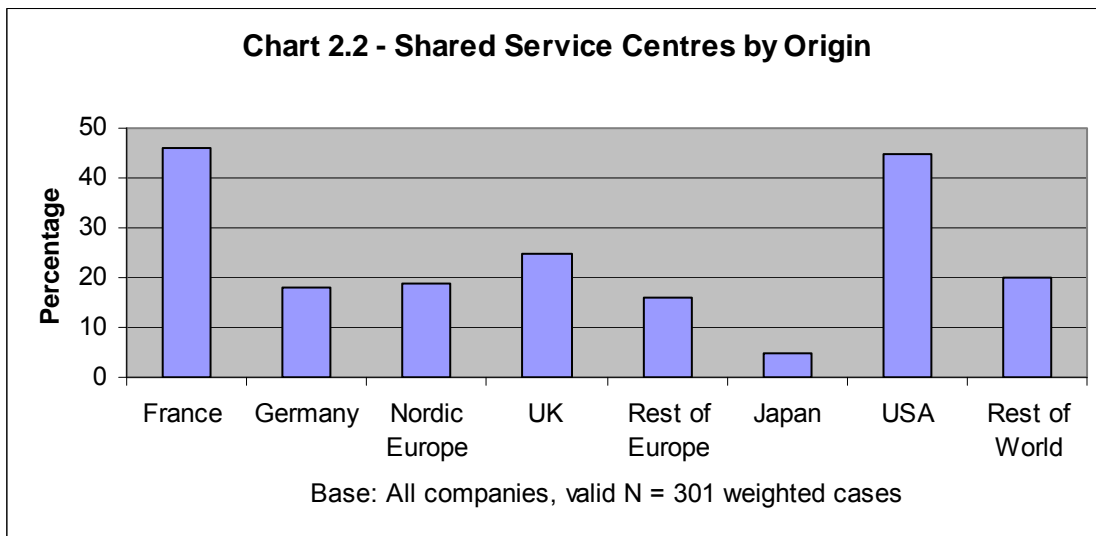
IT Networks and Shared Services

An important element of how the international HR function is organised is the prevalence of electronic international 'HR information systems' and 'shared services'. This is revealing about the extent to which corporate management has systematic and accessible information with which to compare sites across countries. Respondents were asked whether the worldwide company had an 'HR Information System, such as PeopleSoft or SAP HR, that holds data relating to the firm's international workforce'. Just over half of the firms (52%) have such a system. One source of variation between firms in this respect is nationality, with American MNCs the most likely to have an HR information system and Nordic and Japanese the least likely. The other source of

variation is worldwide employment size, with the larger firms more likely to have a formal system of this kind.



Data on the existence of 'shared services' across countries provide an indicator of the extent to which the conduct of the HR function is integrated across countries. Respondents were asked whether the firm made 'use of "shared services" centres that are part of the company at global or regional level'. These are present in just under a third (31%) of firms. The variation between firms on this issue can be explained by

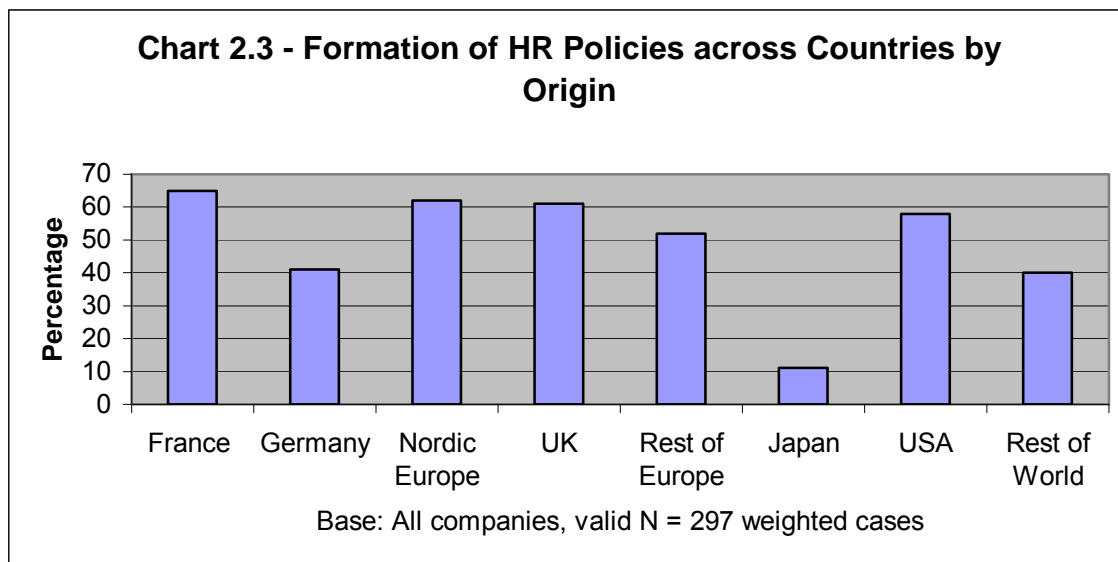


three factors. The first is nationality, with American and French those most likely to have shared services. Second, the larger firms were more likely to have shared services than smaller ones, with this relationship holding for both UK and worldwide

employment size. Third, firms that are structured around international divisions or a 'hybrid' structure (in which two or more levels are of equal importance) are more likely than other firms to have shared services.

HR Policy Formation

An aspect of the international HR function that provides a measure of the degree of control over HR policy across borders is whether there is an international HR policy making body. Some previous research has shed light on the role of these bodies (Tregaskis et al. 2005) but we know little about their prevalence. Respondents were asked whether there was a 'body within the worldwide company, such as a committee of senior managers, that develops HR policies that apply across countries'. These bodies are quite common, with more than half (53%) having one. Nationality and size are once again sources of variation between firms in this respect. French, Nordic, British and American firms are more likely to have a committee; those from Germany, the Rest of the World and especially Japan are less likely. In relation to size, larger firms by both UK and worldwide employment are more likely than small ones to have such a committee.



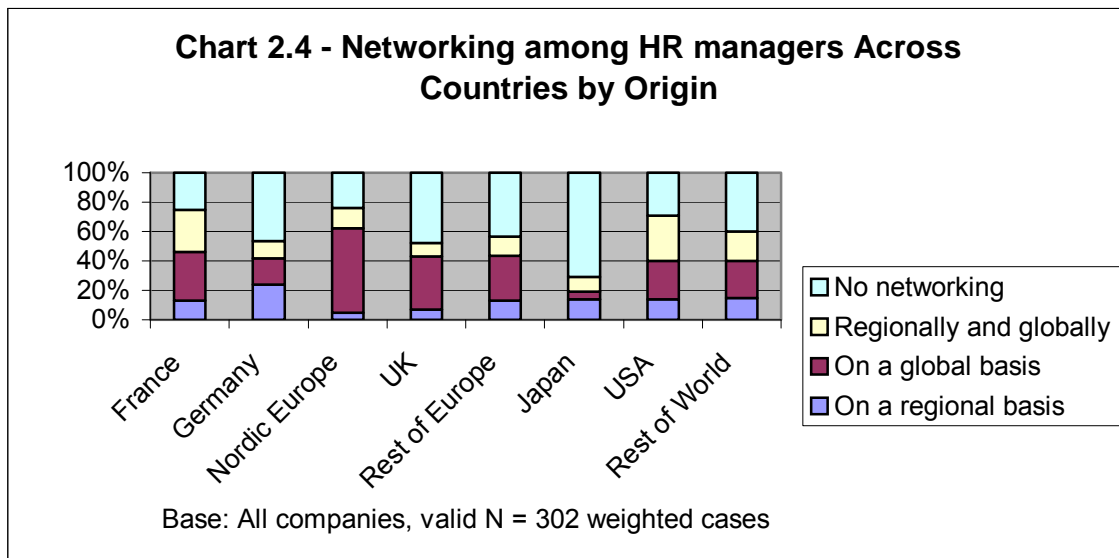
One important aspect of these committees that gives an impression of the role of the UK operations within them is whether the UK operations have a representative who sits on the committee. This can be seen as one indicator distinguishing UK operations with a 'local HR implementer' role from those that are 'participants in an international network'. Among the overseas-owned MNCs with a committee, just over half (55%) indicated that there is a UK representative.

Coordination between HR Managers across Borders

A potentially important indicator of the extent to which the international HR function is characterised by a cross-country network rather than being hierarchically controlled is the degree to which the HR function makes a systematic attempt to bring managers together across sites. Just under two thirds (63%) bring HR managers from different

countries together in a systematic way. This provides further support for the notion that many MNCs are developing an integrated approach to HR policy making. Respondents were asked whether this networking takes place at global or regional level. In nearly three out of ten cases (29%) HR managers meet only on a global basis whereas they meet only on a regional basis in only just over one in ten companies (13%). In a further fifth or so (21%) of the companies such meetings are convened at both levels.

Once again, the nationality and size variables are important determinants of this. French, American and Nordic firms are those most likely to bring managers together in this way on a global basis and French and American are also more likely to do so regionally. Larger companies by both UK and worldwide employment size are more likely to encourage managerial contact on both a global and regional level. One other association is notable, namely that those MNCs in which regions are the most important aspect to the structure are among those least likely to encourage managers to network on a regional basis. Perhaps this might be due to senior management in such firms feeling that the strength of the regional dimension to the structure leads to this happening automatically and, therefore, they do not need to promote it actively.



Of those that bring managers together systematically on a global basis, several mechanisms are used:

- More than half (54%) have regular meetings at least quarterly
- Nearly seven out of ten (69%) have a conference annually or more frequently.
- Task forces are used by three quarters (76%), with the majority of these being on an ad hoc basis.
- Virtual groups are used by two-thirds (67%) of firms.

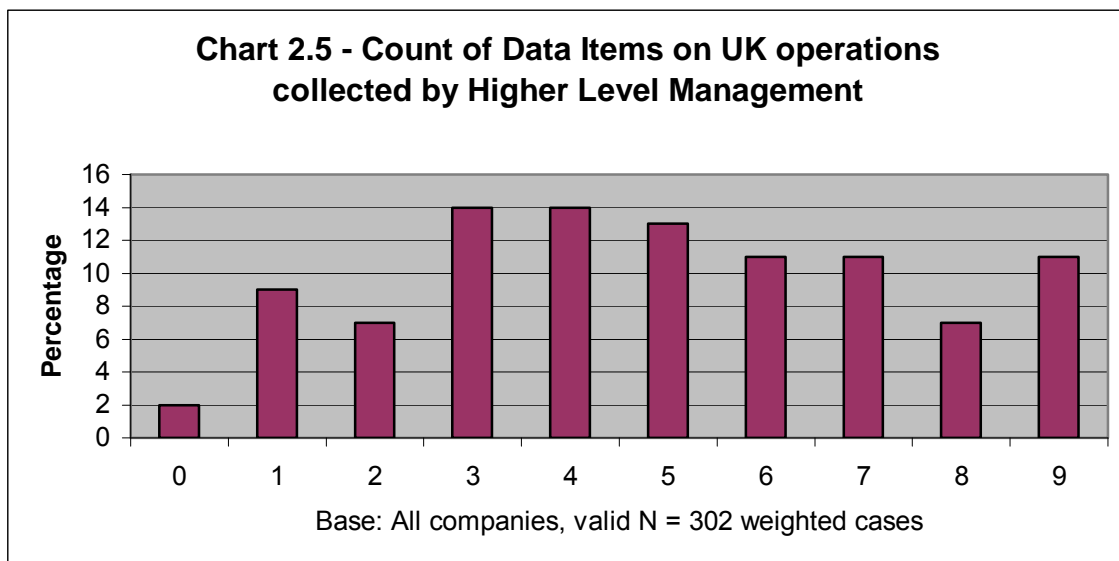
Monitoring

A different way of assessing the nature of the HR function is to examine the extent to which the UK operations are monitored by higher level managers. Respondents were

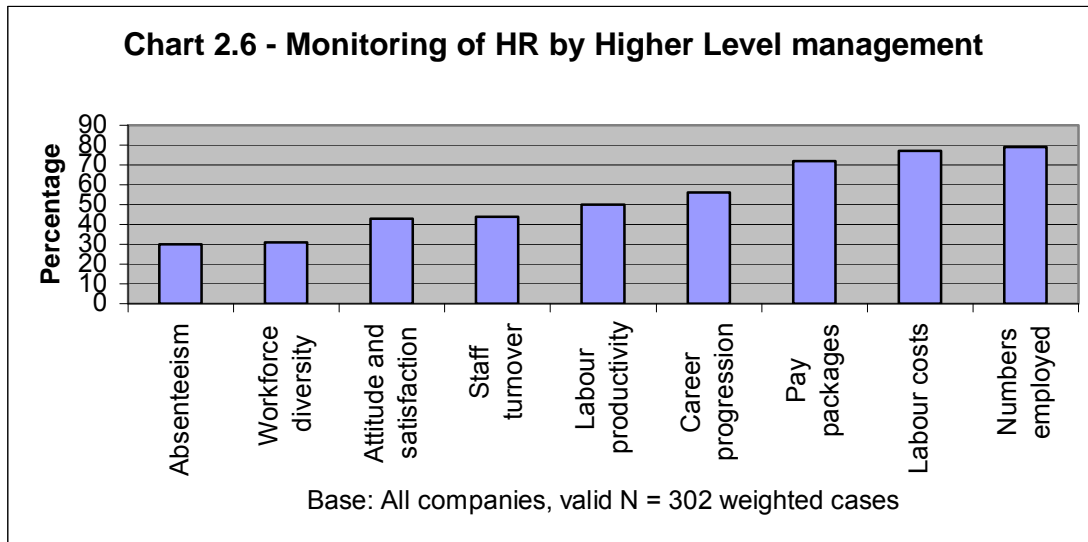
asked whether information on a range of nine items on the UK operations is collected by management outside the UK. British MNCs were asked similar questions about the extent to which they collect data on the operations outside the UK.

The broad picture is one of considerable differences between firms. The data were used to construct a count of the number of items for which the UK operations are monitored, ranging from zero to nine. It is clear that some firms monitor on a wide range of issues; 87 firms (29%) monitor the UK operations on seven or more of the nine issues. It is these firms where HR managers in the UK are most likely to be 'local implementers' of global policies. Other firms monitor on very few issues; for example, 55 firms (18%) collect data on two or fewer. The UK HR functions in these MNCs are those most likely to be autonomous from higher levels of management.

How can we explain these differences? One source of difference between firms is their nationality. Japanese firms monitor on the fewest number of items (av = 3.3), significantly less than French (av = 6.2) and American firms (av = 5.1). Another source of difference is size, with large firms monitoring more widely. This is the case both for UK employment size, with firms of 2,000 or more employees monitoring on more issues than smaller firms, and for worldwide employment size, with firms of 5,000 or more employees monitoring on a wider range of issues.



Another aspect of variation on this issue is between the various items. Data are collected by well over half the firms on each of the following items: managerial pay, managerial career progression, numbers employed, overall labour costs and labour productivity. Data on the other issues are collected by smaller proportions of the MNCs, especially so for diversity.

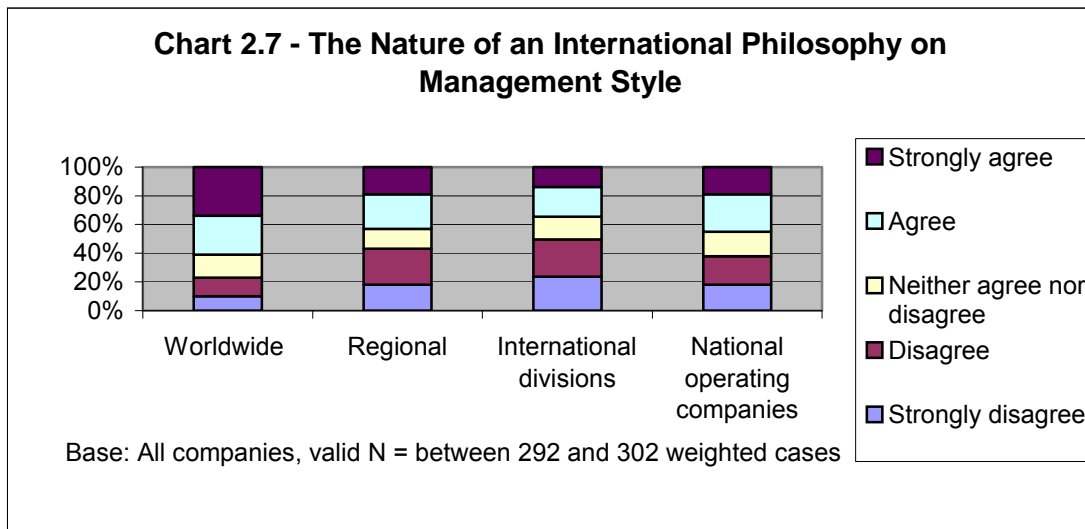


There were some notable associations between the tendency to collect data on these issues and the nationality of the parent firm.

- American companies are more likely to monitor on absenteeism and on employee attitudes.
- French firms more commonly monitor on managerial career progression, headcount, turnover and diversity.
- German firms are less likely to collect data on diversity and employee attitudes and Japanese firms less so on the two managerial items, turnover, diversity and employee attitudes.

HR Philosophy

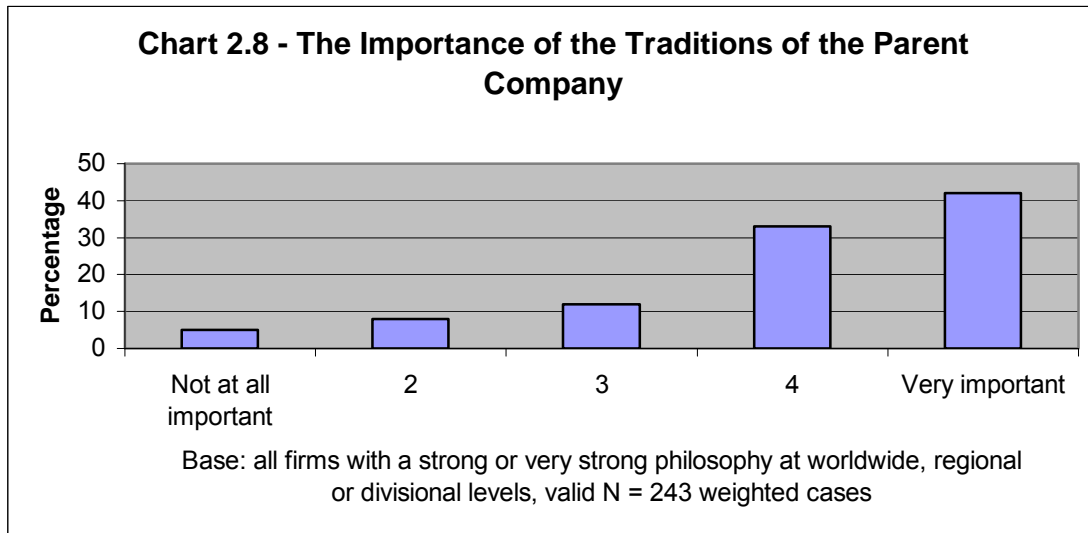
A further way of examining the international dimension to the conduct of HR is to consider the extent to which there is a uniform management style across borders (Sparrow et al. 2004). Respondents were presented with a series of statements relating to the company's philosophy concerning its management style towards employees and asked the extent to which they agreed or disagreed with each using a 1 to 5 scale. The data show that a worldwide philosophy is widespread: more than six out of ten (61%) agree or strongly agree that it exists. A regional philosophy was also present in a number of firms, though it is rather less common with a little more than four out of ten (43%) identifying its presence. The other two statements assess the way in which decisions on whether to have a philosophy on management style is devolved, with slightly fewer than half (45%) agreeing or strongly agreeing that the development of a philosophy is left to national operating companies and a third (34%) giving this rating to the statement that the development of a philosophy is left to international divisions.



A number of associations are notable between these various dimensions:

- There are some firms in which the respondent indicated that there are both strong worldwide and regional philosophies. Indeed, there are 87 firms (29% of the total) that are 4 or 5 on the scale for the worldwide philosophy and are also 4 or 5 on the regional philosophy. One interpretation of this might be that there is a broad worldwide philosophy and a more specific regional one within this.
- Another aspect of the inter-relationship between the worldwide and regional levels is that it seems that a worldwide philosophy quite often exists without a regional one but not the other way round. The evidence for this is that there are 71 cases (24% of the total) that are 4 or 5 on the worldwide philosophy but only 1 or 2 on the regional one, while in contrast there are only 19 cases (6%) that are 1 or 2 on the worldwide philosophy but are 4 or 5 on the regional philosophy.
- There are also some interesting associations between the worldwide philosophy and the development of such a philosophy being left to international divisions. There are 48 firms (16%) that are 4 or 5 on the scale for the worldwide philosophy are also 4 or 5 on the 'left to international divisions' scale. This might be seen as there being a broad worldwide philosophy that is applied in a more specific way at divisional level.

For those cases in which the respondent had answered 4 or 5 to the worldwide, regional or 'left to international divisions' statements, there was a supplementary question concerning the importance of 'the traditions of the parent company in shaping this philosophy'. This provides a measure of the extent to which management style is 'ethnocentric' (Perlmutter, 1969) in that the firm is dominated by the norms of the country of origin. What is striking is the very high level of ethnocentrism, with three-quarters of respondents (75%) saying 4 or 5 on the scale. This ethnocentric orientation was strongest in those firms with a worldwide philosophy; 90% of those rating the worldwide philosophy as 5 gave a rating of 4 or 5 to the importance of the home country. The association between regional and divisional philosophies and the country of origin was weaker.



The data on global philosophies and the way in which they are influenced by the parent company were then assessed against the variables relating to the basic characteristics of firms, their strategies and structures and the role of the UK operations. Three associations stand out.

- American firms are the most likely both to say that a global philosophy is important and that the traditions of the parent company are important in shaping this philosophy. In contrast, French firms, which have been as distinctive as the Americans on many of the issues covered in this chapter, are less likely to see global philosophies as important, raising the possibility that they have a particular pattern of control resting on 'hard' control systems rather than 'soft' philosophies. Japanese firms are also less likely than others to see a global philosophy as important.
- Larger firms as measured by UK employment were those most likely to exhibit an ethnocentric orientation.
- Those firms that have been in the UK for the longest were those in which the traditions of the parent company were strongest. This final association sits uneasily with some visions of MNCs evolving over time in such a way that they shed an ethnocentric orientation and suggests instead that this endures, and maybe even strengthens, over time.

Summary and Conclusions

By way of conclusion we return to the various scenarios raised in the introduction. This entails an assessment of whether the various aspects of the HR function that we have covered in this chapter are associated with one another. Do the characteristics cluster together? If so, do they do so in a way that suggests that in some firms the UK HR function is autonomous from higher levels of management, in others it is a 'local implementer' of policies designed outside the UK and in a third group it is a participant in an international HR network?

Three strands of the evidence strongly suggest that there is a clustering:

- One aspect of this is that the various organisational means of coordinating the approach to managing the workforce across countries are associated; HR information systems, shared services, international HR policy making

committees and regular meetings of HR managers across countries are all significantly related to one another.

- Moreover, firms with each of these four forms of coordination monitor on a wider range of employment issues than other firms and are significantly more likely to agree or strongly agree that there was a worldwide philosophy concerning the management of staff.
- In addition, firms with a worldwide philosophy tend to monitor a larger number of employment issues than do firms without such a philosophy.

Taken together, this can be seen as evidence of two competing tendencies. In the first, involving a common approach to HR across borders, there are organisational mechanisms of coordination, monitoring by higher level management on a range of issues, and a worldwide philosophy for managing the workforce. In the second, in which we can think of the UK HR function as autonomous, these characteristics are weak or absent.

Among the group with a coordinated approach to HR across borders, we made a subsequent distinction at the outset concerning whether the UK HR function is primarily acting on the guidance or prescriptions of higher level managers – the ‘local implementers’ – or whether they are able to make an input into policy development, thereby serving as participants in a networked approach. We have reviewed two sources of evidence on this. First, in those firms with an international HR committee, just over half have a UK representative on this body. This constitutes around a third of the total number of overseas-owned MNCs in the survey, suggesting that it is not uncommon for those in the UK to play a meaningful role in an international network. The second source of evidence paints a slightly different picture, however. When asked about the traditions of the parent company in shaping an international philosophy, only one in four (25%) respondents gave a rating of three or less and only one in six (16%) said two or less. One interpretation of this is that where HR managers in the UK are participants in an international network the influence they exert is normally constrained by the context in which the norms of the parent company remain highly influential.

In addressing the key features of the HR function internationally and the role of the UK within this we have shed some light on the issue of the extent of higher level control over the handling of HR issues at local level. This issue is sufficiently important to warrant further consideration, and it is this that we turn in the next chapter.

Chapter 3

Managing HR: International Coordination and Local Autonomy

Introduction

In managing human resources, multinational companies face a choice over the extent to which they attempt to secure advantages from standardising policy and practice across their operations in different countries, or from giving local operations discretion to shape their own policy and practice. Advantages to standardisation can arise, for example, where similar production or service operations involving similar work routines are being undertaken across countries. Conversely, benefits relating to local discretion can arise where the nature of production or service operations, and hence work routines, differs across countries. There are also intermediate possibilities which attempt to simultaneously secure advantages of a degree of centralisation and of decentralisation. For example, policy frameworks may be common across operations in different countries, but there is scope for local adaptation in the elaboration and implementation of policy. In practice too, companies tend over time to move along the standardisation - local discretion spectrum, making adjustments in either direction as market and production contingencies change. Compared with aspects of management such as finance and product development, the management of HR has been found to be relatively less standardised and more locally devolved (Rosenzweig and Nohria, 1994). Differences between aspects of employment practice have also been identified (Ferner, 1997): management development, remuneration systems and employee involvement strategies seem more likely to be susceptible to cross-border coordination than are wage determination or employee representation and consultation. We might expect such differences to be confirmed by the survey findings.

Insofar as MNCs are looking to coordinate and exercise a measure of influence over policy in the local operations, the means by which this is achieved vary. A key distinction derives from the contrast between 'structural' and 'social' forms of control (Scullion and Starkey, 2000). Under the former, companies rely on the use of the formal international HR structure described in the previous chapter, along with the elaboration of either policy frameworks or even detailed policies, together with monitoring of their implementation. Under the latter, the emphasis is on managing culture and values and in promoting exchange of information and ideas through an HR network, an aspect also reported on in the previous chapter. One important means by which social control is sometimes exercised is through the placement of personnel with managerial experience in the company's home country operations in senior managerial positions abroad.

The chapter has three main sections. The first examines patterns of standardisation and local autonomy across a range of employment practices, and investigates those factors which account for variation in the overall degree of discretion. The second considers the nature of any influence from management at higher levels of the multinational, be it from global, regional or international business headquarters, over policy in the UK operations. The third looks at the extent to which the five most senior

management positions in the UK operation are occupied by managers with experience in the home operations of the MNC, whom we term 'parent country nationals'.

Discretion of national subsidiaries

The degree of freedom enjoyed by subsidiaries of MNCs is one key indicator of how these firms operate. Do they treat subsidiaries as mere branch operations following instructions from head office, or do they give them some discretion? And to what degree is the extent of discretion shaped by the HR practices analysed in Chapter 2?

Measuring discretion

The survey asked about discretion in each of the four substantive areas of HR policy, and in each area it identified some concrete aspect of policy. Respondents were then asked to indicate the degree of discretion on a five-point scale from none (which was explained as 'must implement policy set by a higher level') to full ('can set own policy'). This question is one where we cannot combine the replies of overseas- and UK-owned MNCs. The former come clearly from UK subsidiaries, and relate to the discretion that a higher level of the firm allows them. In the UK-owned firms, questions asked about UK and overseas subsidiaries, addressing the discretion *granted to* these two kinds of subsidiary. There is the added complication that not all UK respondents were located at the global headquarters of their firm, so that replies will come from differing perspectives. We will thus analyse the two groups of firms separately, and given the larger number of overseas MNCs restrict some themes to them alone; we also make limited comparisons within the UK-owned group to allow for the differing positions of respondents.

A total of 17 items was identified. Not all of these were relevant to all firms; for example, we asked about discretion in relation to performance appraisal schemes as they applied to managers, the 'key group' and the LOG but the question was pertinent only when the relevant group was present.

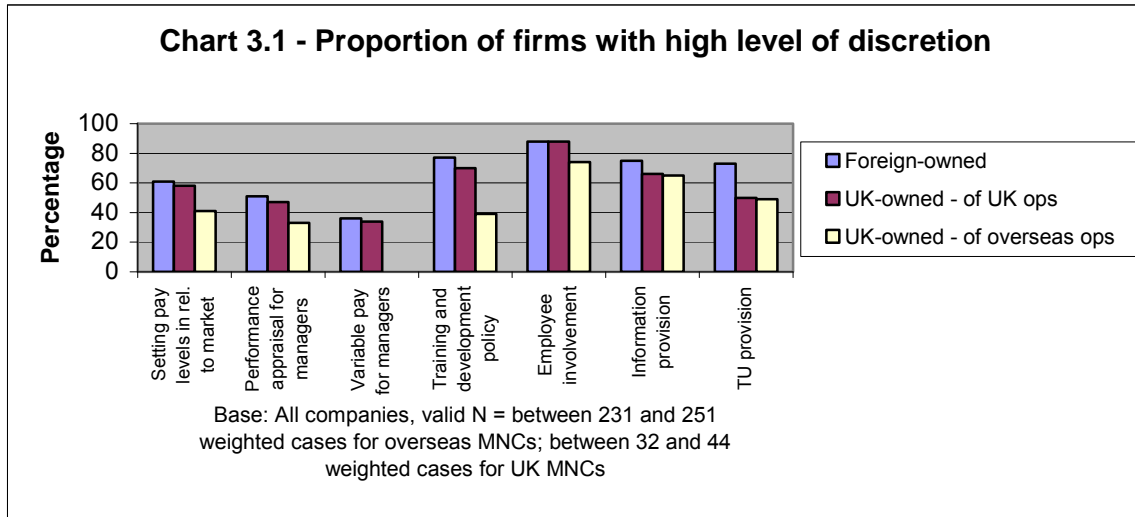
Pattern of discretion

The overall pattern on virtually all items is that high levels of discretion are reported, in both overseas- and UK-owned firms. Chart 3.1 gives some summary indicators for a selection of issues. These issues were chosen to cover our four substantive areas, taking topics that were answered by the great majority of respondents.

Four points stand out.

- On most issues, substantial discretion is reported in relation to UK operations by both overseas- and UK-owned firms.
- Discretion is highest for the more specific operational issues, notably the use of employee involvement schemes. But even in respect of more strategic issues, such as performance appraisal of managers, around half of respondents report high local discretion.
- The ordering of issues, from high to low discretion, is the same in the overseas- and UK-owned firms. Reported levels of discretion also seem similar, though UK firms give notably low discretion in respect of decisions on trade union recognition.
- Among UK MNCs, discretion is reported to be lower in overseas than in UK operations. This may be surprising to the extent that home-country operations, being closest to the head office, might be expected to be controlled the most

tightly. It may be that respondents thought of 'UK operations' as a whole range of activities that were known and were allowed decision-making autonomy whereas overseas subsidiaries are thought of as relatively large and distinct units that call for more central intervention.



There are two exceptions to the pattern shown in Chart 3.1: the use of employee share ownership schemes; and succession planning for managers. We look at each of these separately.

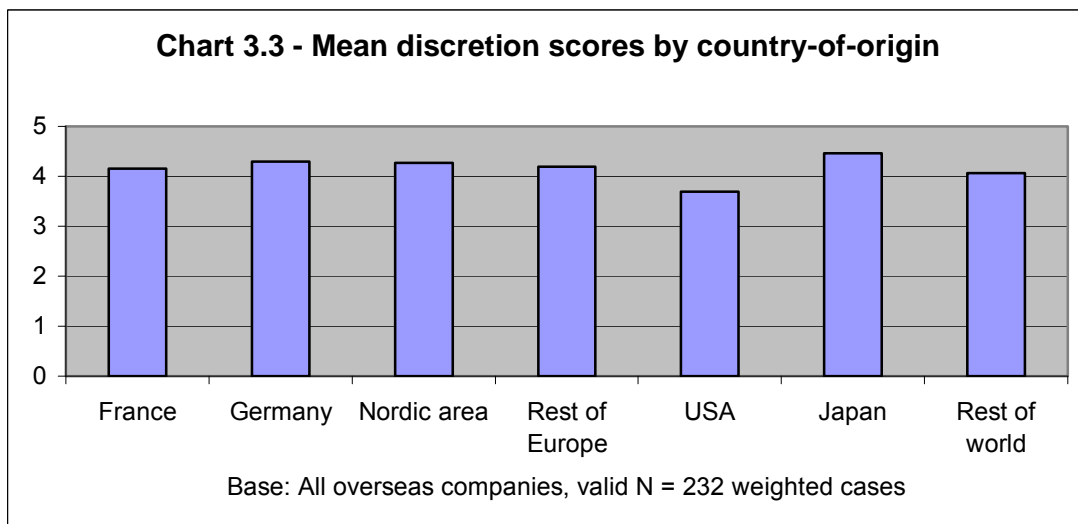
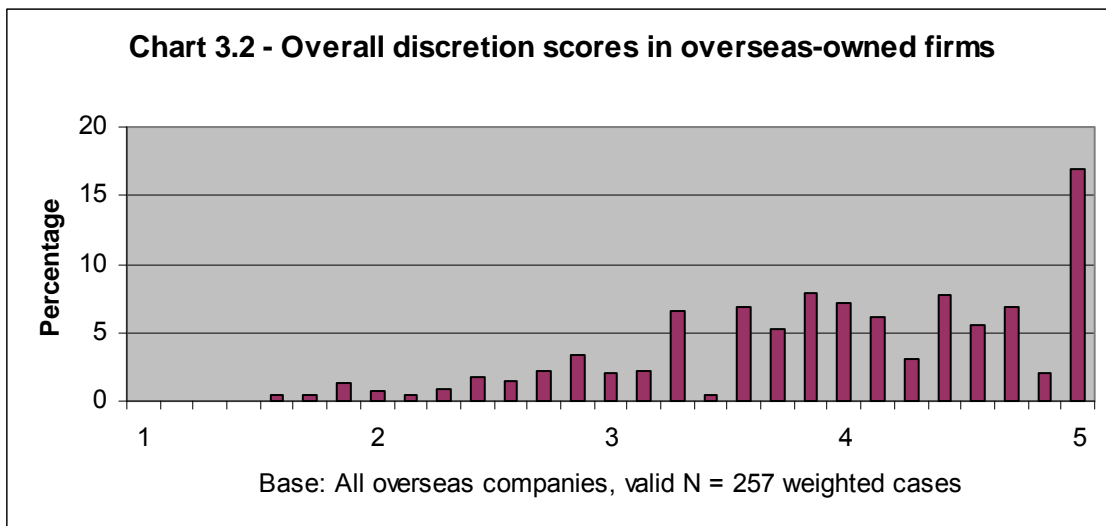
Share ownership schemes. Here, a large number of respondents felt unable to answer (36% of the overseas-owned and 18% of the UK-owned), possibly because this was an issue on which they had no experience. Indeed, analysis against the *presence* of a scheme showed that every respondent except one without a scheme felt unable to respond about discretion in this area. This is not necessarily to be expected: it is possible not to have a certain practice but to have discretion over its use. But in this case the absence of experience meant that respondents saw the question of discretion as purely hypothetical. Of those who did reply, the majority reported that very little discretion existed. The option of 'must implement policy' was the response of 79% of the overseas-owned firms and 53% of the UK-owned. This particular issue seems to have been one on which, in the event that decisions were needed, higher level control was important. Such a picture might be expected, in that whether or not to deploy a scheme requires decisions about the allocation of a firm's share capital which can be taken only at the level of the firm as a whole.

Management succession planning. There is a similar but less stark pattern in relation to succession planning. The question was asked only where a formal succession planning system exists. Of overseas-owned firms, only 36% reported high discretion on this item, as compared to 77% for overall training and development policy. Among these 139 firms, low discretion on this issue is associated with relatively low discretion on training and development generally, particularly where very little discretion exists.

Influences on discretion

To analyse the overall pattern of discretion, we took the seven key items above. These were answered by the great majority of respondents. The overall index forms a reliable scale.¹ We also looked separately at succession planning. The relatively small numbers of UK firms, together with missing data on some items, meant that this exercise was limited to the overseas-owned firms. For the UK firms, we used some simpler indicators.

Chart 3.2 shows the average scores of the overseas-owned firms. The striking fact is that the most common score is 5, indicating complete autonomy across all seven items. The mean score is 3.97. The clearest comparable indicator for UK firms is 3.50. This indicates as might be expected that there is rather less discretion in domestically-owned firms, but the overall picture is none the less one of considerable similarity.



¹ Cronbach's Alpha of 0.82

Among the overseas-owned firms, the most striking influence on overall discretion is the country of ownership. US-owned firms report significantly lower levels of discretion than those from other countries (Chart 3.3). This is true within both the manufacturing and service sector. It also holds in relation to succession planning. The finding is consistent with a long line of research finding that US firms tend to be relatively centralised. We also found some tendency for Japanese firms to report relatively high levels of discretion. Both the US and the Japanese scores were significantly different from those of firms from all other countries.

Other influences on discretion give some clue as to its importance. Discretion is not related to the age of the firm as an MNC or its overall size: it does not seem to be the case that 'maturity' as an MNC affects the centralisation of control.

There is a notable difference with succession planning. We looked at whether the UK subsidiaries of overseas-owned firms fulfil this function, and if they do how much discretion they have. Carrying out the function is associated with:

- age as an MNC;
- and size of the UK operations.

These two factors also reduce discretion among firms performing the function. In other words, subsidiaries need to be quite well-established to carry out the function, but once they carry it out their autonomy declines as they become larger.

We might expect the degree of discretion to be associated with the structure and the HR practices of firms. On structure, firms with integrated production arrangements might be expected to offer relatively little discretion, because of the need to maintain links between the UK subsidiary and other parts of the firm. Similarly, firms with HR practices that embrace the whole of a firm might lead to little discretion for any one subsidiary. As for data collection, this could be associated with high discretion, on the argument that a firm can rely on performance metrics and leave subsidiaries free to decide how to meet the relevant needs. Or it could be linked to low discretion to the extent that firms treat measurement and a lack of discretion as combined means of controlling subsidiaries.

We therefore examined such factors as:

- the level of the diversification of the firm;
- the extent of supply relationships between the UK operations and the global company;
- the presence of a mandate to produce goods or services globally or to perform R&D for the whole firm;
- the existence of a matrix business structure;
- the extent of international HR structures;
- and the extent of 'reverse diffusion' practices (see Chapter 8).

Discretion is indeed lowest in the most integrated firms, though patterns are far from clear-cut. Thus having a matrix structure is associated with low discretion and there is a slight tendency for firms with more extensive supply chain relationships to have lower discretion. Similarly, discretion is low where reverse diffusion is reported. Diversification and presence of mandates have no effect on discretion.

The strongest associations are with the HR measures. Low overall discretion is associated with:

- the collection of a large number of items of HR data by the UCC;²
- the presence of an HR policy committee;
- the existence of systematic arrangements to bring HR managers together.

When we look at discretion in relation to managerial succession planning, the same patterns are apparent.

In view of the importance of discretion, we also did some further (multivariate) analysis to assess the relative impact of the main influences on it. The key influences, controlling for other factors, leading to low discretion are:

- a matrix structure involving international business divisions and regions;
- US ownership;
- extensive HR data collection;
- and linkages among HR managers.

The presence of an HR policy committee is less influential. The structural measures (product integration and reverse diffusion) no longer have significant effects.

We also examined this issue among the UK firms, taking two indicators of discretion in both UK and overseas operations. In general, influences run in the same direction as among the overseas-owned firms, though the small numbers involved mean that results do not attain statistical significance.

Summary

Overall, the discretion of UK subsidiaries is substantial. There is a clear tendency for discretion to be constrained where firms have integrated HR practices, and a weaker tendency in the same direction where there is productive integration between the UK operations and other parts of the firm. Extensive data collection is not a substitute for higher level control; rather, it goes along with low discretion. Discretion is low in two areas where central direction is important, the deployment of share ownership schemes and managerial succession planning. It also seems that subsidiaries need to be quite large to perform these functions, and that discretion may be relatively high once subsidiaries are larger than some size but that discretion then falls as they grow larger and, possibly, more fully integrated with their firms' overall systems in these respects.

Sources and forms of higher-level influence

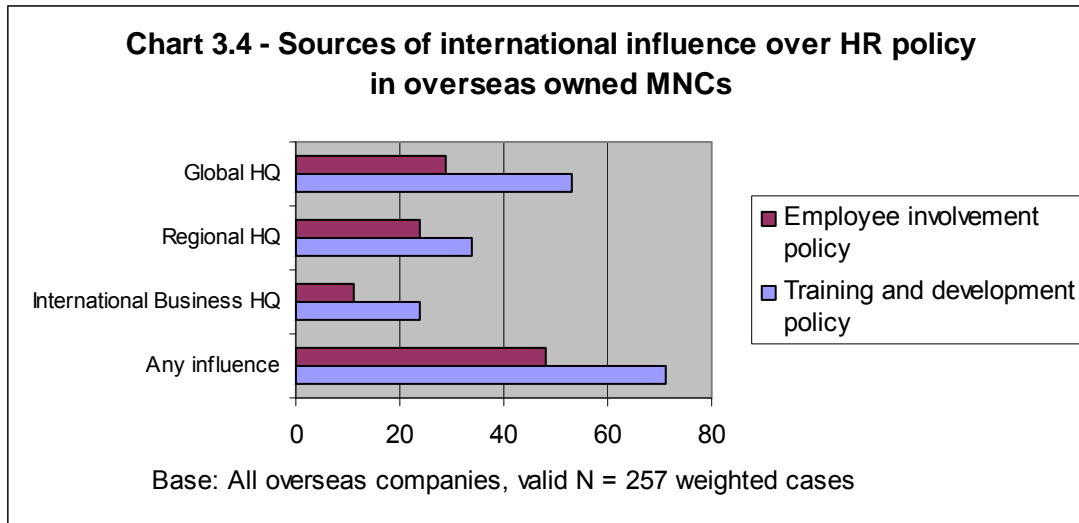
Overseas-owned companies

Managers in overseas-owned MNCs were asked whether an international level of the organisation had any influence over policy on two of the four areas on which the survey focused: training and development, and employee involvement. Seven out of every ten overseas companies (71%) report influence over training and development policy from at least one international level of the organisation, and almost half (48%) over policy on employee involvement. Forty-five per cent of companies report influence from an international level in both policy domains.

Respondents were asked to identify the levels from which such influence is exercised. Chart 3.4 shows that global headquarters is the most prominent source for both policy domains, followed by a regional headquarters and then by an international business

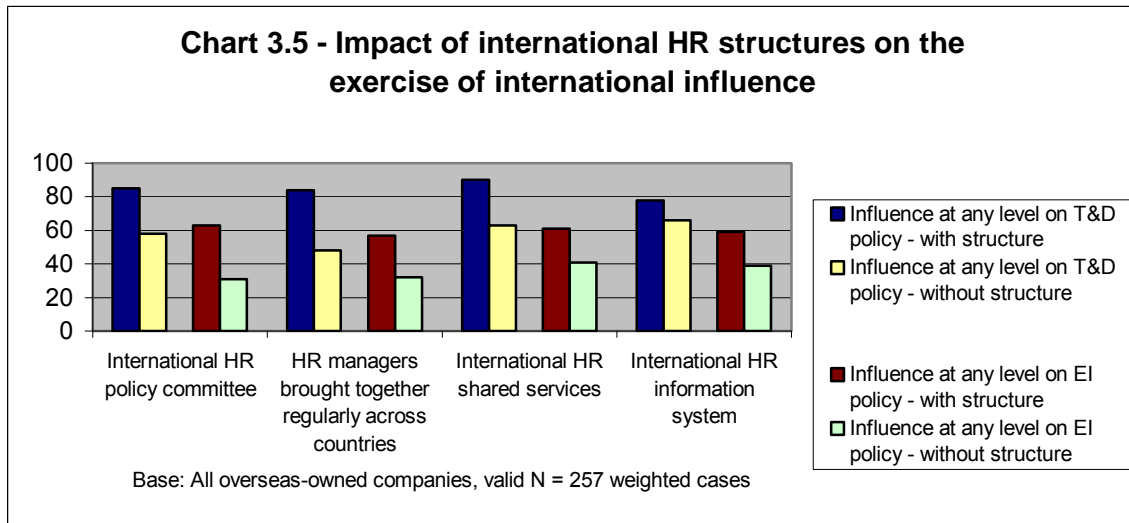
² Given the importance of this result, we checked it using categories of discretion rather than a continuous measure. We found it to be robust.

headquarters. More than a quarter of companies (29%) report influence from more than one level over training and development policy, including 12% where influence is exercised from all three of these levels. For employee involvement, the equivalent figures are 12% and 4%. Respondents reporting influence from more than one international level were asked to identify the most important. The single most important level of influence for training and development and employee involvement policy, respectively, was global headquarters in 36% and 23% of all cases; a regional headquarters in 24% and 19% of cases; and an international business headquarters in 11% and 6% of cases.



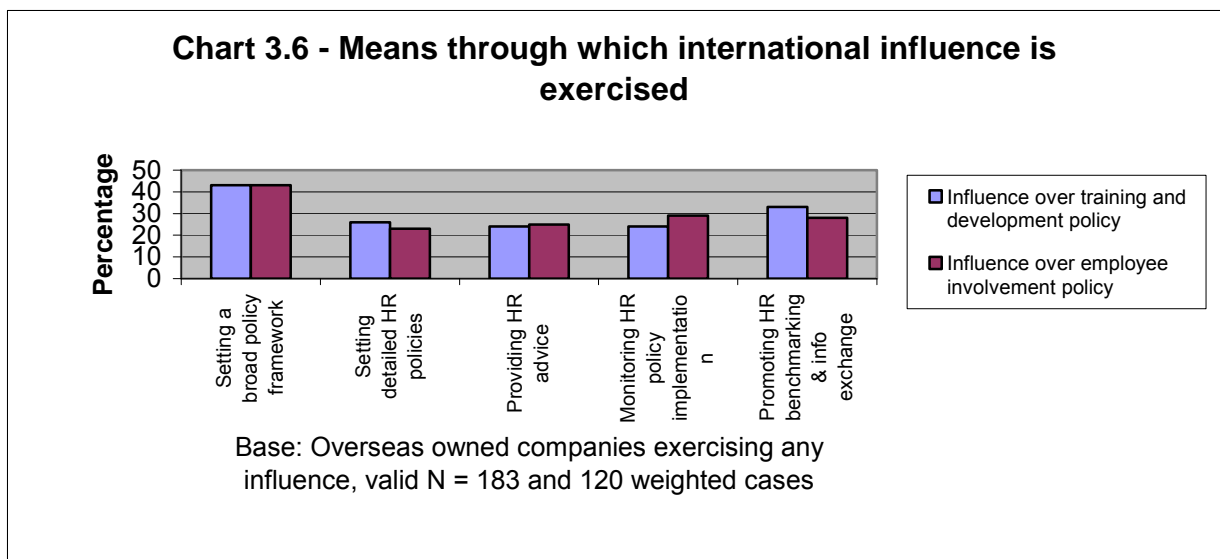
Differences over whether any influence is exercised according to country of origin are evident. MNCs based in Germany, the Nordic countries and Japan are less likely to exercise influence over training and development policy than those based in other countries. On employee involvement policy, the same tendency is evident for Nordic MNCs only; in addition, on this matter US companies are more likely than others to exercise influence. There are no significant differences by sector. For training and development policy, influence is more common the larger the scale of the UK operation and the larger the worldwide company; the same tendency is apparent for employee involvement policy, but the association is not significant. Higher-level influence is more likely for both policy domains in more diversified firms (related or unrelated business activities) as compared to those characterised by a single or predominant business activity. For employee involvement policy it is also more likely where the UK supplies operations in other countries or where there is two-way internal trade, than where the UK operation receives supplies from operations in other countries only or where there is no internal trade.

For both policy domains, influence is much more likely to be exercised by an international level of the organisation where international HR structures and mechanisms are present, as Chart 3.5 shows. Companies which exercise influence also routinely monitor a more extensive range of HR indicators.



There is a clear association with the measure of discretion for UK operations, described in the previous section. For both policy domains, where there is influence over policy from an international level of the organisation discretion is noticeably less than where there is no such influence.

Managers were asked to assess the significance of five possible means by which international management (from the single most important level) might exercise influence over training and development, and employee involvement, policy. The five means, and the proportions reporting them as significant or very significant (scores of 4 and 5 on a 1 to 5 scale running from 'not at all significant' to 'very significant'), are shown in Chart 3.6.

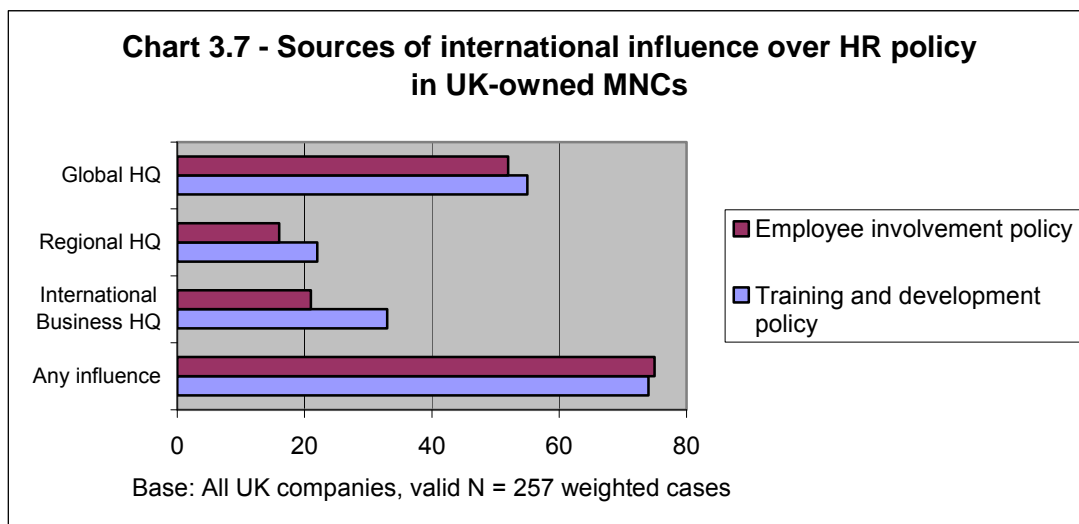


Setting a broad policy framework is the most prominent means of influence for both policy domains, being assessed as significant or very significant in over four out of every ten of those MNCs exercising influence from an international level. The

equivalent proportion for the other four means of influence ranges between one quarter and one third of those companies exercising influence. These different means of influence appear to be complementary, and not substitutes for each other. The scale scores for the degree of significance of the five means of influence are positively (and significantly) associated with each other for both policy domains.³ This means that companies which emphasise, for example, the setting of detailed HR policies as a means of influence are more, not less, likely to also emphasise one or more of the other four means.

UK-owned companies

Respondents in UK-based MNCs were asked about the influence exercised by an international level of the organisation over policy on training and development and on employee involvement in the operating companies outside the UK. Three-quarters report such influence over training and development (74%) and the same proportion over employee involvement (75%) policy. For training and development policy the proportion is similar to that reported by overseas-owned MNCs for influence from an international level on the UK operations, but for employee involvement policy it is noticeably higher. Two-thirds of UK multinationals reported such influence over both policy domains (67%). Chart 3.7 shows the organisational source of such international influence amongst UK-based MNCs.



Two or more international levels exercise influence over training and development, and employee involvement, policy in 28% and 11% respectively of UK-based MNCs. Global headquarters is the most common source of influence for both policy domains, followed by an international business headquarters and then a regional headquarters. The relatively greater prominence of international business, as compared with regional, headquarters in exercising influence over the overseas operations of UK MNCs contrasts with the comparatively greater prominence of regional headquarters in exercising influence over the UK operations of overseas multinationals (see above). The contrast would appear to stem from differences in approach, as it cannot be

³ The results of factor analysis undertaken on the 1 to 5 scale measures for both policy domains extracted a single factor for each, on which all five means of influence were strongly weighted.

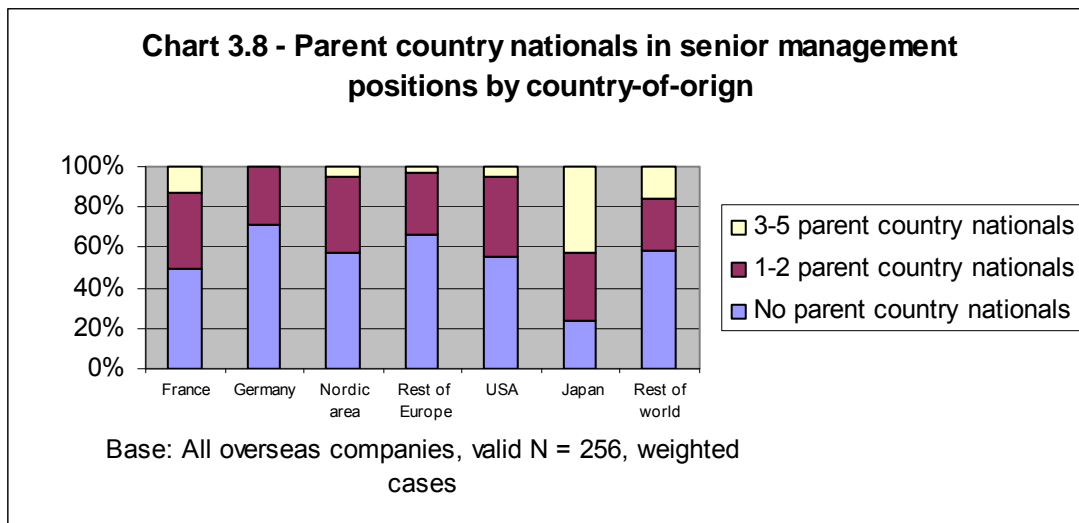
attributed to any difference in the incidence of these intermediate international organisational levels in UK MNCs as compared to overseas companies. Both groups report that broadly similar proportions have such structures (see Chapter 1).

Although UK MNCs with the various international HR structures show some tendency to be more likely to exercise influence, than those without, the differences are not on the whole statistically significant.

Asked to assess the significance of the five possible means of exercising influence (see items in Chart 3.6) over the two policy domains in operating companies overseas, respondents in UK-based multinationals most commonly cite 'setting a broad policy framework' as being significant or very significant (62% and 66% for training and development and for employee involvement policy respectively). HR advice and consultancy is also relatively prominent for training and development policy (53% significant or very significant), but less so for employee involvement policy (33%). For training and development, and employee involvement, policy, the respective proportions reporting the other means of influence as significant or very significant are: setting detailed HR policies (32% and 31%); monitoring HR policy implementation (39% and 34%); and HR benchmarking and information exchange (42% and 28%). As with the overseas-owned companies, the different means of influence seem to be complements and not substitutes: for both policy domains there is a strong and positive correlation between the scale measures of the degree to which each means of influence is significant.⁴

Parent-country nationals in senior management positions

Of the overseas-owned companies, 45% have at least one manager with experience of the home-country operations ('parent-country nationals') among the five most senior positions in the UK operation. This includes 22% reporting one such manager, 14%



with two such managers and 9% with three, four or five such managers. Chart 3.8 shows that Japanese MNCs are by far the most likely to have 4 or 5 parent-country nationals amongst the five most senior positions; they are also the least likely to have

⁴ The results of a factor analysis of the 1 to 5 scale measures for both policy domains extracted a single factor for each, on which all five means of influence were strongly weighted.

no parent country nationals among the senior UK management team. Differences between MNCs based in other countries/regions are less marked, although German companies, and those from the rest of Europe, are less likely to have any parent-country nationals amongst the most senior five managers than MNCs based elsewhere.

There is little difference in the incidence of parent-country nationals between MNCs in services and in manufacturing, nor according to the measures of business strategy. The largest MNCs in terms of worldwide employment (20,000+ employees) are more likely to have parent-country nationals in the UK management team than smaller multinationals; and the presence of parent-country nationals is positively associated with the size of the UK operations. It is also more likely in MNCs which have been established in the UK for 5 or more years. None of the 34 cases in which the company had had a presence in the UK for less than 5 years have 3 or more parent-country nationals in the senior UK management team.

It might have been expected that where there are formal international HR structures such as a worldwide HR policy committee, or where there is extensive monitoring of data on HR outcomes, then reliance on parent-country nationals in managing the UK operations would have been less. In fact there is no association between the presence of parent-country nationals and the existence of a worldwide committee or the number of data items monitored by management at higher levels. The presence of parent-country nationals among the five most senior management positions is, however, positively associated with HR managers being brought together on a regular and systematic basis, which is consistent with an emphasis on promoting exchange of information and ideas.

We examined the relationship between 'social control', as indicated by the incidence of parent-country nationals among the five most senior management positions, and the discretion of UK operations over, and the influence of international levels of the organisation on, HR policy. For discretion, there is a slight tendency for relatively large numbers of such managers to be associated with low discretion. It seems that extensive social control tends to reduce discretion, but not very powerfully. For training and development policy, but not for employee involvement, international organisational levels are more likely to exercise influence where there are parent-country nationals among the five most senior management positions than where there are none. This aspect of structural control would seem if anything to complement, rather than substitute for, social control.

Conclusions

The UK operations of overseas-owned MNCs are managed with a considerable degree of discretion over a range of areas of HR policy and practice. Two issues which are exceptions to this pattern are managerial succession planning and employee share ownership schemes. The discretion which UK-based MNCs accord their overseas operations, whilst still extensive, is relatively less; a difference which might be attributed to the headquarters perspective of respondents in these companies. The extent of discretion is clearly associated with the exercise of influence over two key aspects of HR policy by international management structures within overseas-owned companies. The various means by which such influence is exercised tend to be used in combination, rather than as substitutes for each other. Put another way, multinationals which look to exert influence over policy in their UK operations

deploy a repertoire of means to do so. Further analysis uncovered a link between the means of influence and discretion; where companies set detailed policy and monitor its implementation then discretion is comparatively less than where they do not. Social control, as indicated by the presence of parent-country nationals among the five most senior management positions, is not closely related to discretion or to the exercise of influence by international management. Structural control, relying on the exercise of influence, and social control would not seem to be clear-cut alternatives.

Patterns according to country of origin are mixed. US MNCs stand out for the constraints placed on the discretion of UK operations. Japanese MNCs are distinctive for the extensive discretion found amongst their UK operations and the high incidence of parent-country nationals. Of the other contextual, strategic and structural variables examined, there is some evidence that the UK operations of MNCs in which there are supply linkages across borders have less discretion. The role of cross-border linkages in limiting discretion, but also in increasing the probability of influence from international management structures, is, however, most apparent in the organisation of the HR function. MNCs with internationalised HR systems, structures and networks are those where discretion over HR policy and practice in the UK operations is comparatively less and the exercise of influence over two key aspects of policy more widespread.

Chapter 4

Pay and Performance

Introduction

This chapter explores the policies that multinationals adopt in the area of pay systems and performance management. This is one of the key issues for human resource management, and often an indicator of a firm's wider management style. It may be seen as reflecting the firm's strategic approach to the management of employees, its approach to individual employees, and the principal messages of its corporate culture. It is a core element in the management of those managerial and professional resources regarded as key to international competitive advantage. It is, therefore, likely to be subject to influences from higher levels of management, as many previous studies have confirmed (e.g. Rosenzweig and Nohria, 1994).

Nationality of ownership has been seen as a major factor influencing the kinds of pay and performance (P&P) policies that MNCs adopt. American companies, for example, have long been regarded as HR 'innovators' in such aspects of P&P as productivity-related pay bargaining, individual performance appraisal, performance-related pay, and employee share ownership (e.g. Dunning, 1998). National influences stem from the characteristics of the parent-country business system: the US, for instance, has had a long history of pay innovation. This can be traced to the attempts of firms to deter unionisation by providing innovative terms and conditions to employees, and by linking pay to individual performance. In Japan, by contrast, large firms have stereotypically linked pay to seniority. In Germany, sectoral pay bargaining and company-level employee representation through works councils have traditionally limited the scope for individually-focused forms of pay and appraisal systems; in recent years forms of performance-related pay have become more widespread in German firms – albeit normally with works council involvement. Given the relative absence of UK statutory regulation of pay systems – with the exception of equal opportunities and minimum wage legislation – foreign subsidiaries in the UK have the choice of whether to reflect parent-country practices or to adapt to local (or other) norms. Traditionally, the UK has been a site of pragmatic 'experimentation' with pay systems, often imported from abroad, and one might expect UK MNCs themselves to reflect this rather eclectic background.

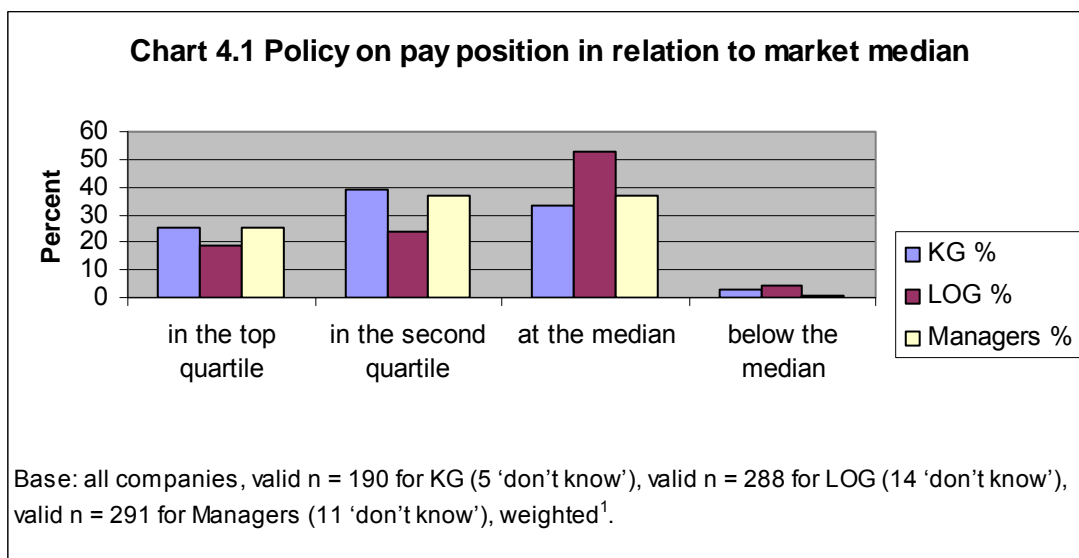
Factors other than country of ownership are also likely to be important. Size in particular, both of the worldwide company and of the UK operation, is likely to be associated with more formalised systems of pay and appraisal. Pay systems typically have a sectoral dimension too. Payment by results and group-based performance-related pay schemes tend to be more widespread in manufacturing, whereas individual performance-related pay is generally more widely diffused in services. International structure, particularly the degree of integration between operations in different countries can also be expected to influence P&P: systems are likely to be more standardised internationally in firms whose operations are closely integrated than in those whose subsidiaries are 'stand-alone'. We explore these and other key

aspects of organisational structure, such as the organisation of the international HR function.

This chapter first looks at companies' overall strategy on pay levels: do they aim to pay employees above, below, or at the market average for their sector? It then considers methods of performance appraisal: whether companies use formal systems for different groups of staff, the way that appraisal is implemented, the uses to which it is put, and so on. Third, it reports on various systems of reward such as profit-related pay and share ownership, and on the nature of the criteria that underpin the award of performance-related pay. Finally, it explores the degree of subsidiary freedom ('discretion') in the management of pay and performance policy.

Policy on Pay Levels Relative to the Market

Our survey shows that, for managers and the KG, policy in most companies is to pay above the median. A quarter of firms aim to pay the KG in the top quartile (see Chart 4.1). This suggests, perhaps unsurprisingly, that the KG is regarded as a scarce and valuable resource for which firms are willing to pay premium rates. Even for the LOG, 43% of firms pay above the median. Only very small numbers look to pay below the median for any group. Firms that are internationally integrated (in the sense of supplying and/or receiving parts of products from other parts of the international company) are more likely to pay managers and KG above the median. The most striking association is with the presence of unions (see chapter 7): firms where unions exist in some or all sites are more likely to pay above the median for the LOG, in line with much economic literature suggesting that unions can have a positive impact on employees' pay. Firms with a higher proportion of female employees are less likely to pay above the median; this again would be in line with the literature on continuing pay differences by gender. Neither nationality nor sector has a significant effect on whether companies pay above the median.



Performance Appraisal

The existence of performance appraisal schemes

The key finding in relation to the use of performance appraisal schemes is that, for each of the groups, the vast majority of companies have formal schemes: 95% for managers, 94% for the KG, and 83% for the LOG. Only 10 firms (3%) have no formal appraisal for any group, and 17 (6%) have such schemes for only one group. Of those firms with a KG, 80% have performance appraisals for all three groups (the question was not asked for UK MNCs). Out of the 274 firms with schemes for more than one group, 56% have a single integrated scheme for different employee groups.

There is a significant nationality effect. US MNCs are more likely than others to have a single integrated scheme, while Japanese and French are less likely to have a single scheme. Sector also has an influence. Service firms are more likely to have schemes for all three groups. Firms with a single integrated scheme are also more likely to have an electronic international HR information system such as PeopleSoft or SAP. Finally, firms that recognise unions are less likely to have appraisal for the LOG, suggesting that unions are to some extent able to avoid the 'individualisation' of performance management for the groups that they represent.

The use of 'forced distribution' appraisal systems

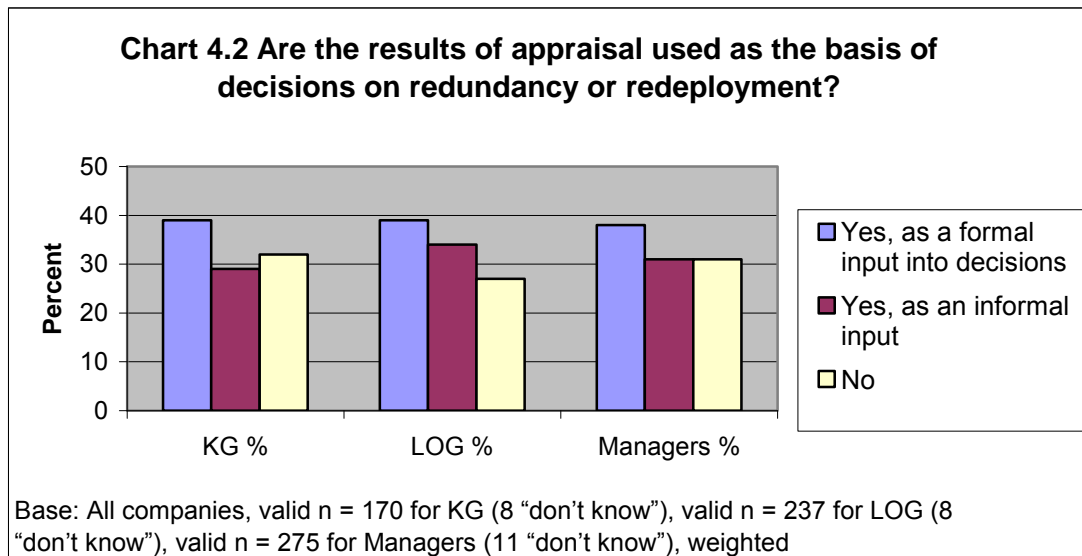
'Forced' distribution (FD) systems oblige appraisers to place a certain proportion of appraised staff in different performance categories or grades, normally with the aim of avoiding the 'bunching' of staff in the higher grades. Such systems have become increasingly prominent as companies have sought to gain competitive advantage by using the outcome of appraisal systems as the basis for decisions on pay, promotion, and redundancy. They are particularly important in business systems, such as the US, where labour markets are characterised by 'employment at will', so that companies are easily able to respond to changes in market conditions by adjusting the size of their workforce. In our sample, just over a fifth of firms (22%) use FD for any group. The figure for KG – 23% - is slightly higher than for the other two groups, both of which have FD in around 20% of firms.

Contrary to expectations, the existence of FD for particular groups is not greatly affected by nationality. There are variations, but these are not significant except in the case of Japanese firms, none of which has FD for the KG. Sector does not seem to be related to the use of FD. However, international HR structures are associated with its use. Companies with international HR information systems (HRIS) are almost three times as likely to use forced distribution for the KG as are those without these systems, and are more likely to have it for all employee groups. Possibly this is because the systems allow higher organisational levels to check on the consistency and integrity of the system.

Performance appraisal and redundancy/redeployment decisions

A key question concerns the use to which appraisal systems, including those based on FD, are put. One obvious purpose is the allocation of rewards, which is discussed below. Another is the selection of employees for involuntary redundancy or redeployment. Some US companies, GE for instance, have become known for using the appraisal system to remove lower-performing employees from the workforce on a

regular basis and/or to identify those in need of 'remedial' action for their performance levels. Companies were asked whether the outcome of appraisal was used formally or informally as the basis of decisions on redundancy or redeployment.



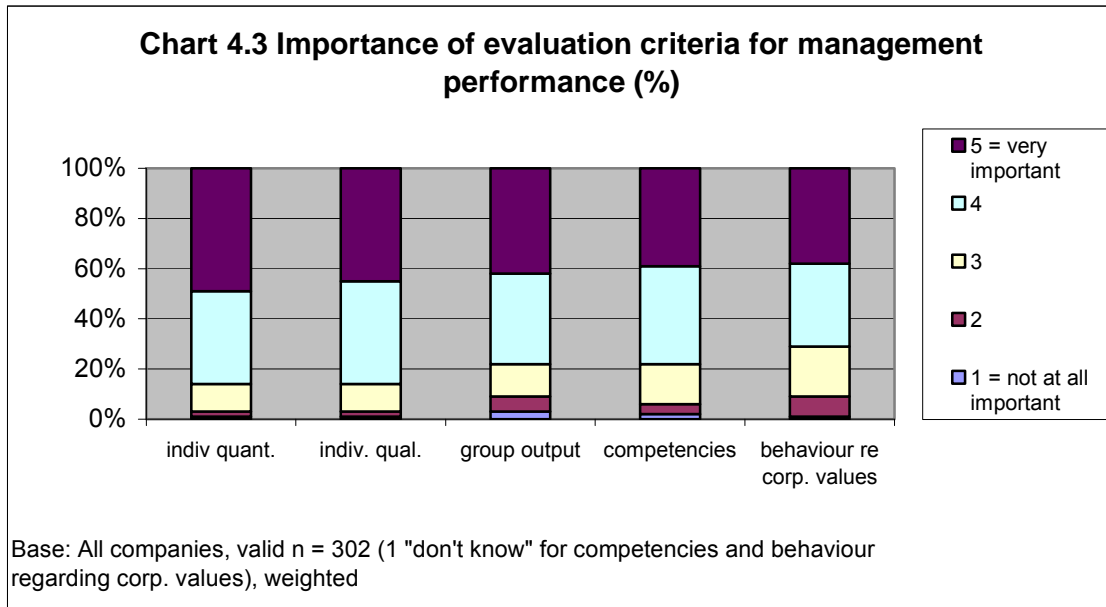
The results, shown in Chart 4.2, reveal few differences for the three groups. For all, appraisal results are an important basis for decisions on redundancy/redeployment, though in only a minority of cases are they used as a formal input. US firms – as one might expect given their systematic approach to performance, combined with their labour market traditions of 'employment at will' – are more likely to use appraisal outcome as a formal input into decisions on redundancy or redeployment, significantly so for the KG. Other factors, such as sector, do not have a significant influence. However, firms where unions are recognised are less likely to use the results of appraisal either formally or informally, suggesting that even where unions are unable to avoid LOG appraisal schemes (see above), they are able to exert some influence over the uses to which such schemes are put.

Evaluation criteria

Companies were asked to assess the importance of the following five criteria for evaluating the performance of managers:

- Individual quantitative output;
- individual qualitative output;
- group performance;
- competencies or personal skills;
- behaviour in relation to corporate values.

The results are given in Chart 4.3.



The chart indicates that all of the measures are rated as very important or important by high proportions of respondents. Individual output targets are seen as important or very important by the highest proportion, while evaluation against corporate values is perceived as somewhat less important.

Nationality is important for some criteria.

- US companies are more likely to emphasise the importance of behaviour in relation to corporate values (their average score is 4.2 compared with 3.9 for other firms). This is not unexpected given the emphasis that US MNCs put on formal and often standardised 'corporate mission' and 'value' statements.
- Japanese firms give lower importance ratings to quantitative and qualitative individual evaluation criteria, and to criteria based on corporate values; for example, for behaviour in relation to values, they score on average 3.5, compared to 4.0 for non-Japanese firms. Nordic MNCs score significantly higher on the importance of competences (4.5 compared with 4.1 for other firms).

Size, too, has some influence. Firms with large UK workforces are likely to find individual quantitative output measures more important than those with smaller UK operations (average score for firms with 2000 or more UK employees is 4.6, for those under 500 it is 4.1). But size does not have a significant impact on other forms of evaluation. Neither does sector does have much influence.

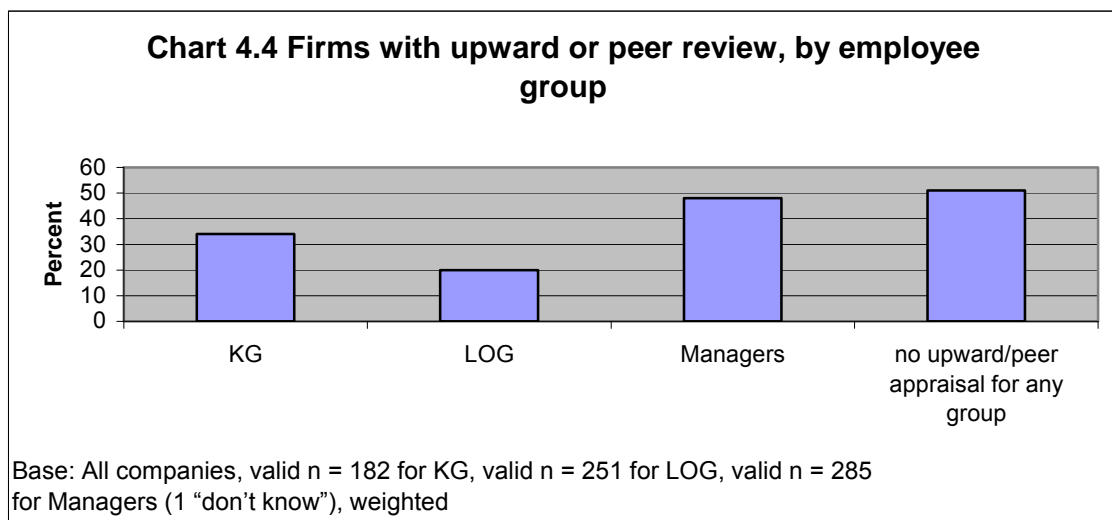
Finally, the existence of a body within the worldwide company responsible for HR policy is associated with higher importance scores for individual quantitative measures, for competences, and for corporate values.

Upward and peer feedback

So-called 'multi-rater review' or '360-degree feedback' is seen as an increasingly prevalent practice in corporate performance management systems. Its managerial rationale is to give individual employees a more rounded and coherent perspective on

their performance by providing feedback from peers and subordinates as well as the line manager; it is regarded as a way of strengthening individuals' skills, competencies and future performance. It is likely to be associated with business systems where relations between managers and employees are less rigidly hierarchical, so may be expected to vary across country. As with so many elements of pay and performance, its origins are associated with the US business system.

Our results show, however, that it is fairly widely diffused among MNCs in the UK, although still a minority practice even for managers. Just over a half of firms have no kind of peer or upward review, while just over a quarter have it for two or more employee groups.



Despite the expectation that US MNCs would be more likely to have the practice, this is not the case (the differences fall just short of statistical significance). Japanese firms are the most likely to have no upward appraisal at all, and are less likely to have peer/upward feedback for managers and for the KG (about half as likely as other firms in the case of managers). The finding in relation to managers is not unexpected given the status ascribed to seniority in Japanese firms.

Services are more likely than manufacturing to have upward appraisal (64% of service firms have it for at least one group, compared with 43% of manufacturers), and the difference is significant for the LOG (for whom 26% of service firms have upward appraisal, compared with only 14% of manufacturing companies). Firms recognising unions are less likely to use upward appraisal for the LOG.

A final factor that is significant is the nature of organisational and HR structures. Firms with international business divisions or with global business functions are more likely to use upward appraisal for managers. The presence of HR structures such as an international HR committee, international HRIS, and an international shared HR services centre. All of these make it more likely that upward appraisal will be found. For example, for managers, 64% of firms with shared service centres have it, compared with only 40% without.

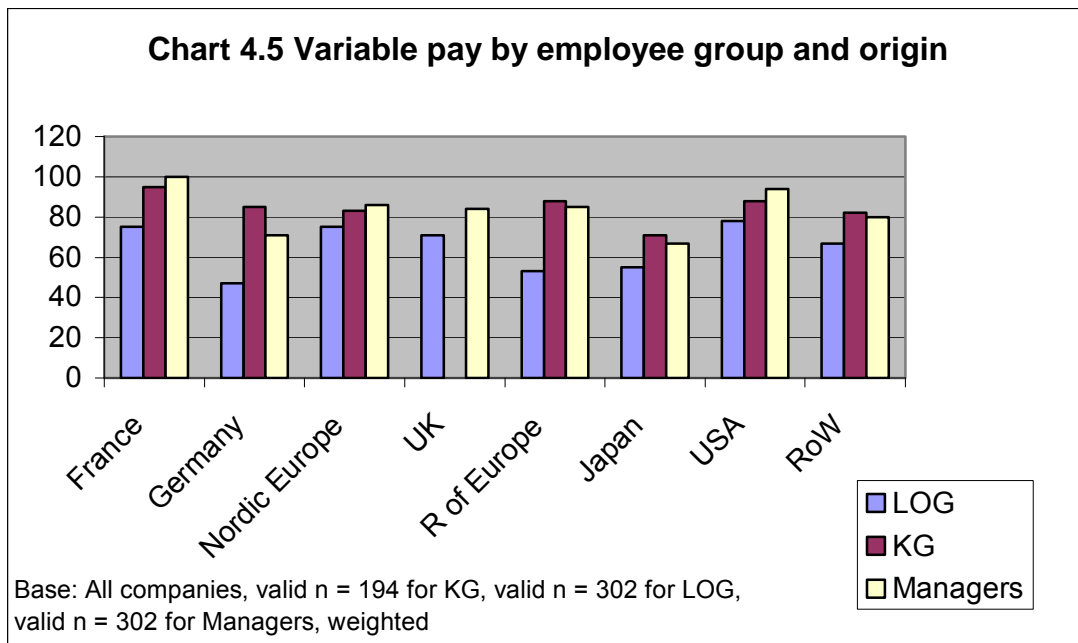
Performance-related pay systems

The survey collected data on the extent to which companies use forms of variable pay, such as 'performance-related pay', performance-related bonuses, 'merit' pay, 'payment by results', and so on. National-level surveys, both in the UK and more widely, have shown a considerable spread of such schemes. Nonetheless, there are significant differences within Europe in the extent of performance-related pay – the concept is much less developed in say Germany, compared with Nordic Europe – and where it exists in Germany it tends to relate to the performance of the company as a whole rather than of the individual. Moreover, there are many subtle differences in the detail of application of performance-related pay schemes, particularly in the extent to which variable pay is related to measures of individual employees' conduct. Significant variation may therefore be expected in the use of variable pay in MNCs.

Data were also gathered on profit-related and on employment share ownership schemes. The latter in particular can be expected to show significant national differences, since parent countries differ widely in the role and nature of share ownership and the associated structure of financial markets: the notion of the 'share-owning democracy', pervasive in the US business culture, and to some extent (since the 1980s) in the UK, is much less developed in the economies of continental Europe or in Japan.

The extent of variable pay

Chart 4.5 shows the extent of variable pay by region/country of origin. Levels are high for all regions except Japan and Germany.



The existence of variable pay is quite extensively associated with nationality. As might be expected, US firms are among the heaviest users of such schemes for all groups, in line with previous research (e.g. Björkman & Furu 2000). US MNCs are more likely

to have variable pay for all three groups, and more likely to use variable pay for the LOG.

German firms have lower levels for the LOG. This is to be expected given the extent to which statutory bargaining arrangements and 'codetermination' through company works councils set the framework for pay systems in Germany (despite a trend in recent years towards greater variable pay). A similar pattern of low variable pay is also found for 'Rest of Europe'. German firms have relatively high levels of variable pay for KG and managers, who are predominantly excluded from the ambit of collective negotiation, although levels are still below the average.

With their traditions of seniority-based remuneration, it is also to be expected that Japanese firms are relatively low users of variable pay. Almost a quarter have no variable pay for any group, and only 67% have variable pay even for managers (compared with an average of 87% for all MNCs).

Sector is also influential. The service sector is more likely than manufacturing to have variable pay for the KG and LOG. For example, 94% of service sector firms have variable pay for the KG, compared with only 80% for manufacturing firms. This could reflect the fact that the KG in services may more often be employees such as sales staff whose rewards conventionally include an important element of variable pay. It is possibly also due to the fact that manufacturing is more heavily unionised, and firms which recognise unions are significantly less likely to have variable pay for the LOG.

Finally, the international structure of HR is again important. Firms in which HR managers are brought together internationally in a systematic way are more likely than others to have variable pay for each of the three groups. To varying degrees, the existence of international HRIS, international shared HR services, and a worldwide HR body are all significantly associated with variable pay.

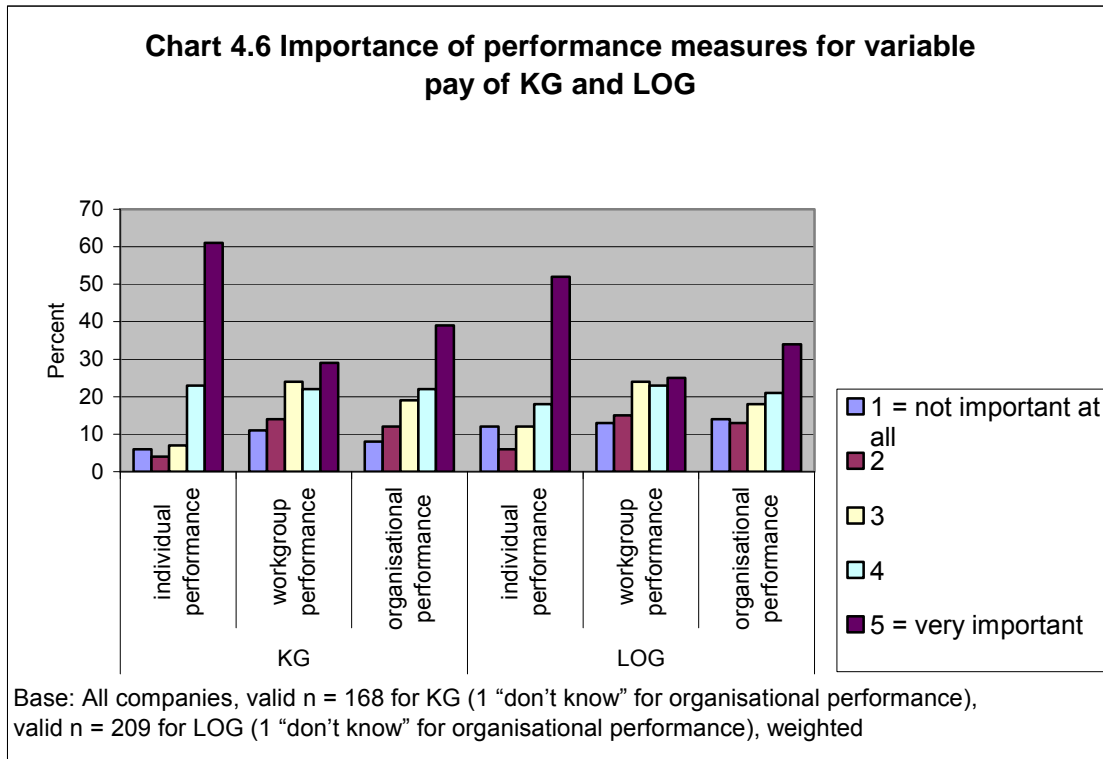
Criteria for the award of variable pay

Variable pay schemes range widely in the way in which they operate, the amount of pay that is at stake, the criteria used to award variable pay, and so on. We asked companies to rate the importance of various criteria used as the basis of variable pay for the LOG and KG. These criteria were

- Individual performance;
- workgroup performance (e.g. team or department);
- organisational performance (e.g. site, region or company).

Chart 4.6 shows the importance for each criterion used to award variable pay, for KG and LOG.

Chart 4.6 Importance of performance measures for variable pay of KG and LOG



For the KG, individual performance is much more likely to be rated as important/very important as a criterion of variable pay than are workgroup or organisational performance. The same is true, though to a lesser degree, for the LOG.

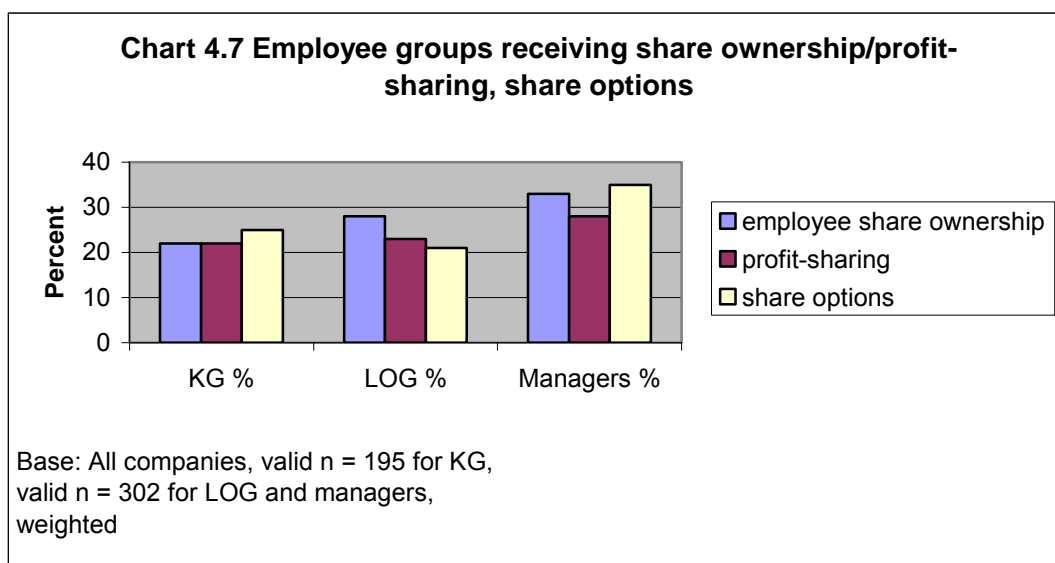
Sector seems to be the crucial factor here, particularly for the LOG. Services firms are significantly more likely to see individual performance as ‘very important’ compared with manufacturing companies (65% and 36% respectively). This no doubt reflects the nature of manufacturing work in which the contribution of the individual is much harder to assess in many kinds of production process, whereas in services, individuals may be judged on a range of individual attributes such as ‘customer service’. It may also reflect higher union influence in manufacturing. Where firms recognise unions, the importance of individual performance measures is significantly lower: their average score is 3.5 (where 5 is the highest importance) compared with 4.2 in firms with no union recognition.

Nationality has some effect. For example, American firms are likely to give organisational performance a higher importance rating for the KG than are other firms. UK firms are more likely to emphasise individual output measures for the LOG (average score of 4.5 out of 5 for importance, compared with 3.8 for non-UK). But for the most part, differences between firms of different nationality are not significant, and size of the UK firm or of the worldwide company has little impact. Nor do aspects of international HR structure, such as the existence of a worldwide HR body, or regular international meetings of HR managers, have much influence.

Profit-related pay and employee share schemes

As noted above, American firms have traditionally sought to bind their employees into 'shareholder capitalism' through the use of employee share ownership schemes. Moreover, the deregulation of financial markets from the 1980s, and the rise of the concept of 'shareholder value', prompted the use of employee stock options as a device to link the remuneration of managers (and other senior professionals) to the financial performance of the company. Share schemes are also relatively common in other countries with a well-developed stock market, such as the UK, but rarer in countries such as Germany where 'insider' systems of corporate governance predominate. Profit-related pay, by contrast, has a long tradition in countries such as France reflecting ideas about distributing the fruits of economic performance to all a firm's stakeholders. In France, profit-sharing (*participation*) is mandatory in companies of over 50 employees; there is also a range of voluntary profit-sharing schemes. More generally within the EU, various steps have been taken to encourage the spread of employee financial participation in firms.

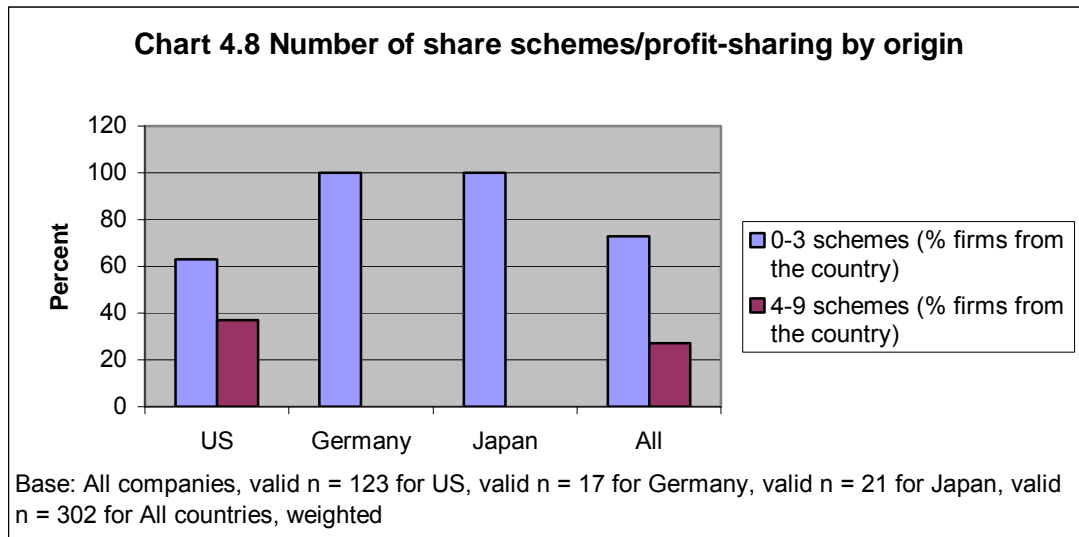
In the survey we asked about the extent of profit-related pay, employee share ownership, and employee stock options, for all three employee groups. The results are in Chart 4.7.



Each of the schemes operates in only a minority of firms. Managers, unsurprisingly, are more likely to have schemes, though the LOG is more likely to have access to share ownership schemes than is the KG. Excluding the UK (for which KG questions were not asked) 43% of all firms have no such schemes for any of the three groups. The existence of schemes is linked to the size of the group within the UK operation: the larger the group, the more likely it is to have a scheme for a given group. Not surprisingly, privately owned firms are less likely to have employee share schemes or share options than publicly traded companies, though such schemes are not entirely absent among the former.

As expected, US firms are significantly more likely to have share ownership and share option schemes for all three groups, and tend to have more schemes than other firms.

Japanese and German MNCs, conversely, are less likely to have a particular scheme, and are more likely to have no schemes at all. The same is true of 'Rest of Europe'. Unexpectedly, French firms, despite their domestic tradition of *participation*, are no more likely than other firms to have profit-sharing schemes. The overall picture for such schemes is summarised in Chart 4.8 below.



As before, international HR structures have a considerable influence, though not on profit-sharing. The collection of data on HR issues, HRIS, an international HR body and systematic meetings of HR managers all make the existence of share schemes more likely (and are also linked to profit-sharing for managers). Firms with these structures in place are also likely to have a higher 'count' of share and profit schemes for different groups. Broader international structures, notably the existence of international product or service divisions, and global business functions, are associated with a greater likelihood of share option schemes.

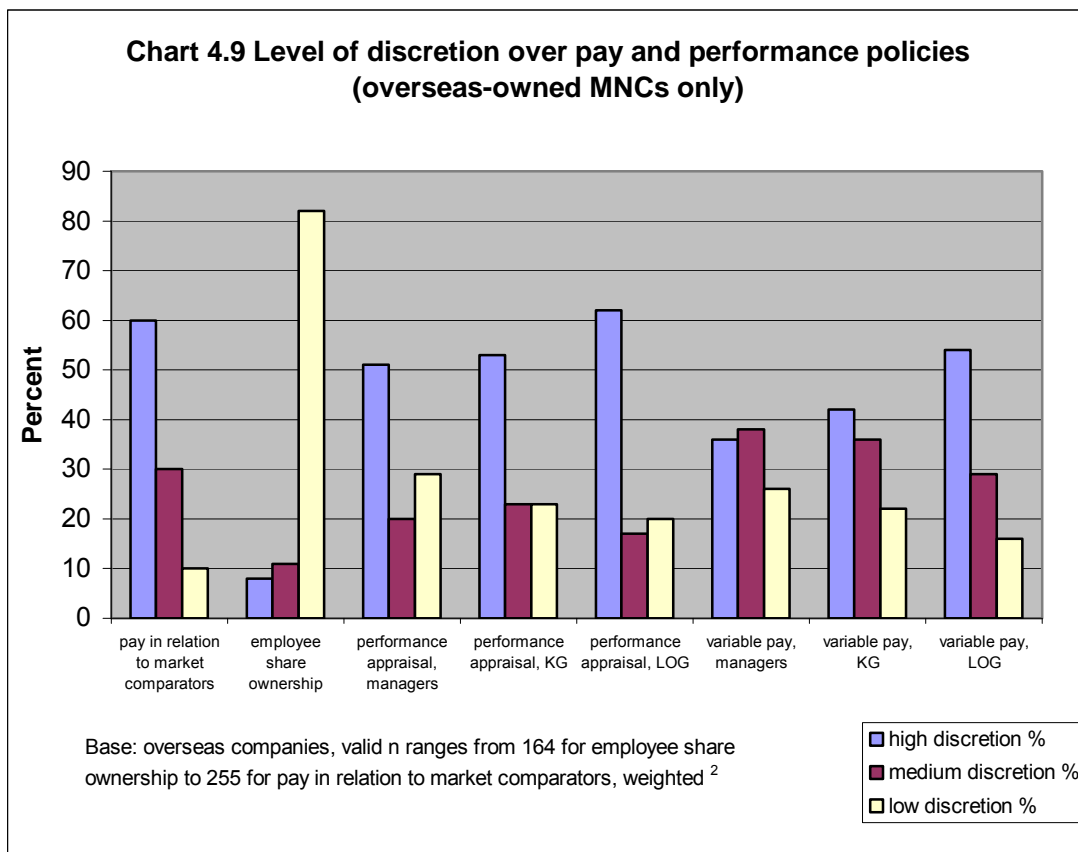
Higher-level control and subsidiary autonomy in pay and performance

Subsidiary discretion in overseas firms

The general issue of subsidiaries' 'discretion' over HR policy has been discussed in Chapter 3. This section focuses on subsidiary discretion over specific areas of pay and performance policy, particularly for the KG and for managers. The overall results are in Chart 4.9.⁵ Previous research suggests that American firms exercise relatively strong centralised control over a range of aspects of subsidiary HR policy-making, including pay and performance. This partly reflects their reliance on formalised mechanisms of management control such as written policies, target-setting, and standardised reporting systems. French firms are also seen as relatively directive, while Japanese companies tend to leave judgements on subsidiary policy to local managers under the guidance of Japanese expatriate senior managers.

⁵'High discretion' refers to respondents answering 4 or 5 on the 5-point scale used; low discretion refers to companies answering 1 or 2; medium discretion refers to companies answering 3. Responses were in all cases strongly grouped at points 1, 3 and 5.

As shown in Chapter 3, the overall pattern is that, with the exception of employee share ownership policies, subsidiaries of foreign MNCs have considerable discretion over aspects of pay and performance. However, discretion is higher for appraisal schemes than for variable pay, and as one would expect is higher for LOG than for KG and managers. Variable pay has relatively high percentages for ‘medium discretion’ – in which the UK operations can develop policy within guidelines set by higher organisational level – suggesting that MNCs set a broad framework of variable pay policy for their operations, within which subsidiaries are free to make choices. Performance appraisal for managers, in contrast, seems more polarised between high and low discretion. Employee share ownership schemes are an exception to the pattern: they are tightly controlled by higher levels. This may perhaps be explained by the inherently centralised nature of decisions concerning a company’s stock.



As expected, nationality has a substantial influence. UK subsidiaries of US firms are likely to have significantly lower levels of discretion on pay and performance than firms of other nationality, while Japanese firms tend to have significantly higher discretion. The effect is felt for all the items in Chart 4.9 except for employee share ownership which, as we have seen, is much more centrally directed than other aspects of pay and performance policy. Somewhat unexpectedly, however, French subsidiaries are no more likely than others to have low discretion, except in the case of appraisal and variable pay for the LOG.

The size of the workforce has only limited impact: the bigger the UK workforce, the less the discretion for performance appraisal for managers and the KG; worldwide workforce has no influence on the degree of discretion. The level of discretion seems to be unaffected by sector.

Integration variables are significantly related to discretion. Firms whose main product or service is geared more to national markets than to regional or global markets are likely to have more discretion. This is the case for all items except for market comparators and share schemes. For example, for discretion over performance appraisal for the LOG, firms oriented to the national market have an average discretion score of 4.4 (1 = no discretion, 5 = full discretion), compared with 3.8 for firms with regionally oriented products or services and 3.4 for those with globally standardised products or services. This is clear evidence that MNCs whose products and services are more internationally standardised exert more control over pay and performance policies in their UK operations.

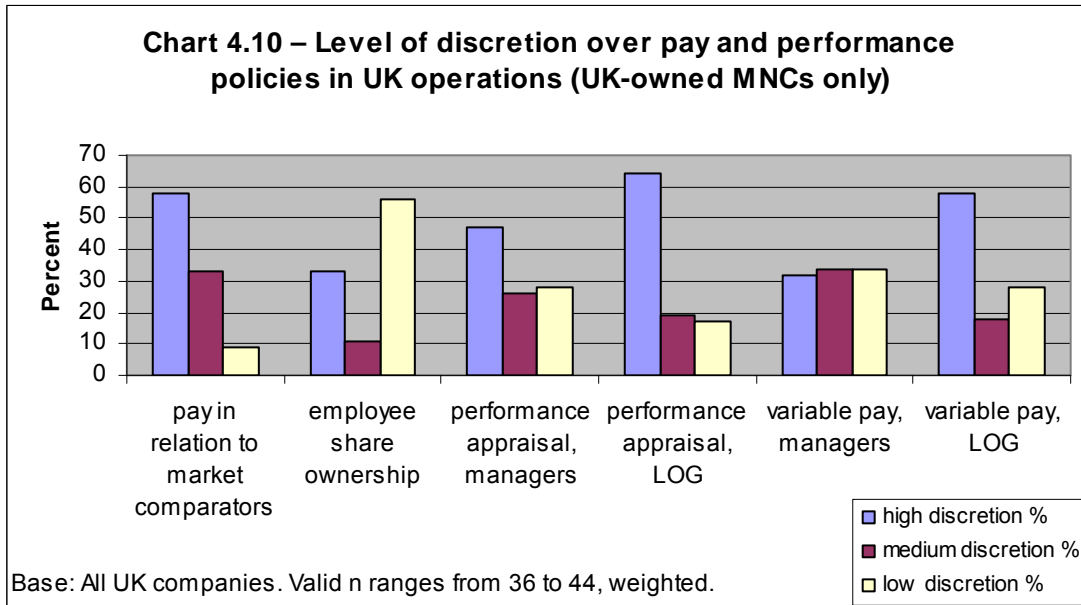
The presence of international structures between global HR and UK operations – notably international business divisions and global business functions – is significantly associated with lower levels of discretion on performance appraisal and variable pay. In the case of global business functions, there is also a significant link with lower discretion on market comparators. Similarly, the existence of HR structures (HRIS, shared services, etc.) tends to signal lower discretion, again for all items except employee share ownership policies.

Finally, discretion is clearly related to the degree of global standardisation of products and services. As one might expect, the more internationally standardised they are, the less is subsidiary discretion on variable pay and appraisal systems for all groups of employees.

Subsidiary discretion in the operations of UK MNCs

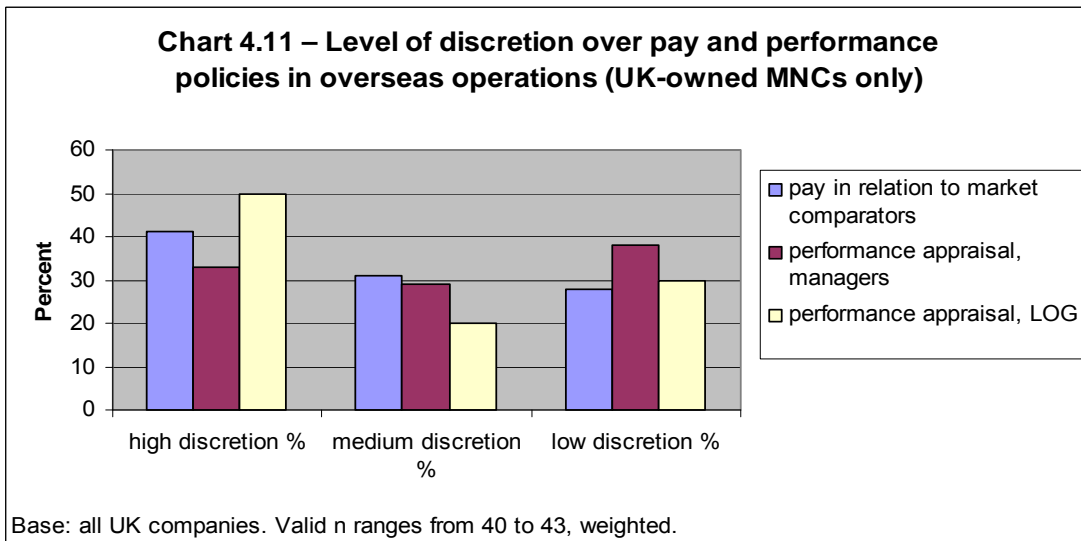
We asked an analogous set of discretion questions for the UK-owned MNCs. As mentioned in Chapter 1, we do not lump them together with overseas MNCs because the two sets of questions are not strictly equivalent: in the case of foreign-owned MNCs, we are asking managers in the UK operations how they perceive higher level control of their operations; in the case of UK firms we are asking higher level managers how they perceive control of UK operations. So there is a clear difference of perspective and possibly of perception of respondents in the two cases.

That said, there is a general similarity in the picture, as Chart 4.10 shows. The main difference is that UK companies have a 'bipolar' picture on employee share ownership, with a significant number reporting high discretion – in contrast, foreign-owned companies overwhelmingly reported low discretion on this item.



Again, HR structures are important here. For example, the existence of an international HR body is associated with lower discretion on market pay comparators and on variable pay for managers; bringing together HR managers cross-nationally is linked with lower discretion on share ownership schemes.

In addition, we asked UK MNCs about discretion of their overseas operations in relation to pay and performance. The responses are summarised in Chart 4.11



Given the relatively low numbers involved, there are few significant associations between these and our 'structural' variables. Some aspects of international HR do have an influence, however, particularly the existence of an international HRIS which

is associated with lower discretion (falling just short of significance), as would be anticipated from the results presented earlier.

Conclusions

To summarise, we have found the following broad patterns:

- A large proportion of MNCs pay their staff, particularly KG and managers, above the median.
- MNCs make very widespread use of formal appraisal systems for all groups, and for each employee group a majority of firms uses some form of variable pay.
- Employee share schemes, share options and profit-sharing are fairly widespread, if far from majority practices, for all groups of employees. Two-fifths of firms have no such schemes at all.
- Individual criteria stand out for their importance, both for management appraisal targets and for the allocation of variable pay to LOG and KG. For managers, individual 'output' criteria are supplemented by a range of other criteria including behaviour in relation to desired competencies and to corporate values.
- Some relatively recent innovations in performance appraisal, such as upward/peer appraisal and forced distribution, have a presence only in a minority of firms. The former is more widespread than the latter.
- Appraisal outcomes are widely used for managerial decisions on redundancy or redeployment for all three groups – though not always in a formal manner.
- A high proportion of UK operations have considerable discretion over pay and performance policy, more so for appraisal schemes than for variable pay, and for LOG than for KG or managers. The one exception to this picture of relative UK discretion is employee share ownership, over which a high level of control tends to be exerted by higher organisational levels.

Within these patterns there are important variations according to our 'structural' factors of nationality, sector, size, and international structure.

- **Nationality** affects both substance and process. It is associated with differences across a range of policies and above all with the degree of discretion allowed to UK operations.

US firms are perhaps less distinctive than one might expect on substantive issues. On apparently American innovations, US companies do not stand out as exceptional. They are not significantly different on issues such as 360° feedback, forced distribution, the existence of appraisal systems, or variable pay. There are some areas in which they do differ: they are more likely, for example, to have share-based remuneration schemes and to use the outcomes of appraisal as a formal decision-making input. Their most marked distinctiveness, however, is in the relatively low degree of discretion they allow their UK operations. This suggests, perhaps, that although there has been some degree of convergence in the nature of the practices used, they are still used in distinctive ways by MNCs of different nationality.

Convergence, to the extent that it is taking place, is by no means wholesale. This is particularly evident in the case of Japanese companies, which are still distinctive in several respects. They are less likely to have a range of policies

such as variable pay for managers, forced distribution, upward appraisal or share-based schemes; they attach relatively low importance to managerial appraisal criteria; and they offer greater discretion to their UK operations.

German firms sit somewhere in between the US and the Japanese polarities – relatively less likely than others to have variable pay or share schemes, though not much different from the norm on discretion.

Finally, UK companies are close to the US pattern in some respects but not all. Like US firms, they make more use of share schemes and profit-sharing; they also are more likely to use regular appraisal of the LOG, and to emphasise individual output targets for managers and for the LOG.

- **Sector** is sporadically significant, particularly in the higher patterns of use in the service sector of performance appraisal and variable pay, and in its greater emphasis on individual criteria of appraisal and reward.
- **Size** is much less significant than we might have expected, given for example the often-observed association between size and the degree of formalisation of HR practices. Other than the existence of share schemes, there are few significant relationships between size and P&P. One might expect the size of the company or of the subsidiary to be significantly related to the degree of discretion, but the extent to which this is the case seems to be quite limited.
- **International organisational structure**, specifically the existence of international business divisions or global business functions between global HQ and the UK operations, is significant in some important respects. In particular, it is associated with the degree of discretion in the UK operations: the existence of these intermediate structures makes it more likely that there will be higher-level influence over P&P policies.
- **International HR structure** is, with nationality, perhaps the most pervasively significant structural variable. Different elements, such as HR committees and HRIS, affect a wide range of substantive issues, including performance appraisal and its use for redundancy decisions, upward appraisal, the criteria of appraisal, variable pay, and share schemes. The existence of HR structures is also associated with lower levels of discretion on a range of P&P items.

In summary, therefore, the principal finding is that two variables stand out as influential when it comes to P&P policy. Nationality is significant for many aspects of P&P, but the importance of international HR structures shines through over a range of issues. The first of these findings was expected, the second less so.

In short, we are witnessing a pattern in which the emergence of a well-developed international structure for the HR function is associated with the implementation of a wide range of P&P policies in the UK operations, and with greater higher-level control. As we show in Chapter 2, well-developed international HR structures are associated with nationality, particularly with US companies, so we could be seeing an indirect 'nationality' impact here, an issue to be explored further in subsequent analysis.

Chapter 5

Training and Development

Introduction

To what extent is the human capital in MNC subsidiaries a local or a global resource, and what factors affect this role? These questions form the primary focus of this chapter. There is evidence that multinationals adhere to local host country norms in training and development patterns (Rosenzweig and Nohria, 1994). There is also evidence that the extent to which development activity is localised or global systems of control are adopted is dependent on the criticality or scarcity of the human capital involved (Taylor and Beechler, 1993). The systems for identifying and managing this type of capability for managerial employees are often regarded as a central activity of international HR functions. The identification and development of managerial capability across national borders, for example through the development of global competencies, provides the multinational with a means of achieving integration of its activities. Given this, we might expect that MNCs whose UK operations need to be strategically integrated with other parts of the worldwide company are likely to adopt a profile of managerial training and development activity different from those where the need for strategic integration is low. An alternative but equally important source of influence over human capital development in MNCs is the development tradition and associated employment practices derived from the country of origin of the parent. For example, Japanese MNCs' investment in formal educational programmes and informal company-specific training is widely recognised (Aoki and Dore, 1994). But to what extent does this occur in the UK context?

This is thus an area of employment practice with potentially conflicting sources of influence emerging from:

- the local labour market context and human capital investment traditions;
- the strategic demands of the MNC;
- the human capital development traditions of the MNCs' country of origin.

The aim of the chapter is to build a profile of the human capital development practices of MNCs in the UK. Four aspects of human capital development are examined:

- the level of financial investment;
- the use of succession planning, with a particular emphasis on explaining the local–global nature of the systems affecting UK managerial employees;
- the extent to which high potential programmes are used to develop UK managerial talent, and the types of development methods that are adopted as part of the high potential training programme;
- the development of the KG, and comparisons between the nature of high potential training for managerial and KG employees.

To enhance our understanding of the role of human capital development in the survey companies, we consider sources of variation such as the degree of strategic integration, use of HR coordination and integration structures, sector and nationality.

Training Investment

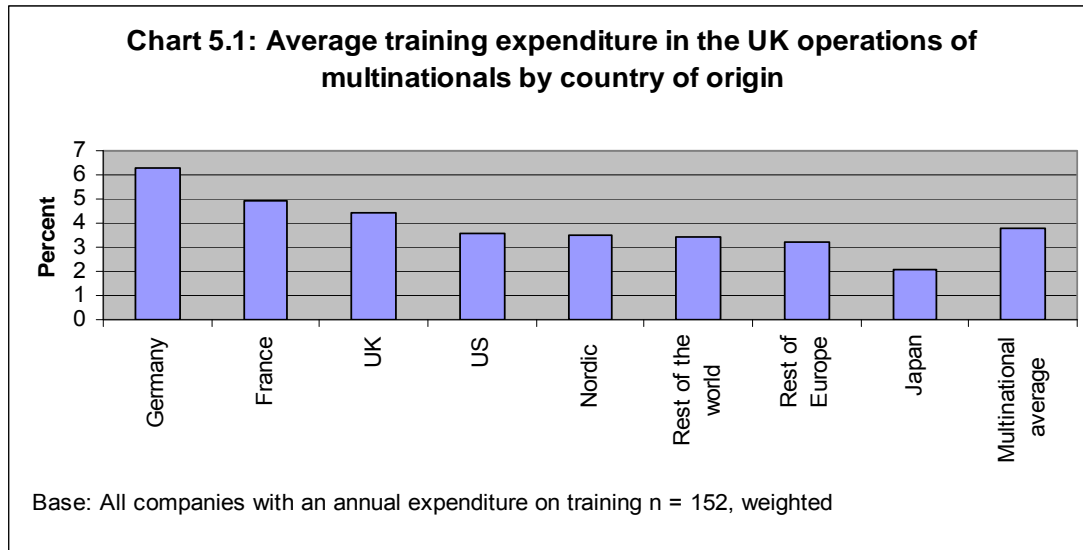
Training expenditure is seen as a proxy for the extent to which companies regard human resources as an investment central to the success of an organisation's strategy. However, companies may not always have reliable data on expenditure readily available, particularly in complex organisational structures. Training investment data also need to be treated with caution as they do not always capture the true level of training activity, particularly informal learning, in an organisation. The value of training expenditure data lies less in the absolute figures and more in the comparative analysis of relative levels of expenditure. When combined with other indicators, training investment data are useful for providing insights into similarities or differences in how human capital development issues are approached in MNCs. Thus the approach taken to training expenditure data here is one that focuses on the relative levels of spending and comparisons between firms.

The findings show that training expenditure by UK operations averages around 3.8% of the annual pay bill, although this tends to be higher for home-owned MNCs (4.4% for UK MNCs compared with 3.7% for overseas MNCs). Forty-two percent of companies were unable to indicate the level of investment made in training by their organisations. This figure is higher for the UK firms than for the overseas MNCs, 47% and 41% respectively. The high non-response on training expenditure may reflect the difficulty associated with gathering this type of financial data in surveys rather than a lack of financial budgets.⁶ Further comparison between operations that provide training expenditure data and those that do not shows no significant difference on the basis of the size of the MNC, sector, or nationality.

National trends in training investment have been widely recognised and reflect divergent national skill development systems, mechanisms of state funding and the societal value placed on generic versus company-specific skills. For example, German companies devote considerable resources to maintaining the dual system of vocational qualifications aided by strong state financial support and collective bargaining agreements, factors which have tended to minimise the benefits of poaching and promoted internal over external labour markets. Moreover, a focus among German businesses on product differentiation rather than cost minimization has created a demand for a high-skilled German workforce, further justifying investment in this area. In France a levy system is in place to encourage company investment in training, the majority of which is devoted to managerial development activity. In Japan formal expenditure on training has traditionally been low. However, this is related to the type of training undertaken, with Japanese companies focusing on informal learning through work design and in-the-job learning activity as opposed to formal expensive off-the-job training. Mabey and Ramirez (2004) conducted a survey of management development practice in Europe and found that national variations were correlated with levels of training investment, with German organisations leading and firms in the UK ranked as among the lowest investors. These national trends raise the question of whether patterns of training investment are transferred overseas. The

⁶ The 2004 National Employers Skills Survey (NESS), which collects data at the lower establishment level rather than organisational level as in our study, found that at least 80% of establishments with 100 or more employees had a training budget. Given this, it would be reasonable to assume that non-response in our survey does not reflect a lack of expenditure, but is more likely to be indicative of the difficulty associated with tracking down this type of financial data at the organisational level.

non-response during our main survey stage means the sample sizes among some of the country groups is small, limiting the conclusions that can be drawn from the comparative analysis. Within this limitation, the analysis finds that German MNCs are the highest investors overall (6.3%), and spend significantly more on training, as measured in this study, than Japanese companies (2.1%) which have the lowest spend overall (Chart 5.1). UK MNCs are the third highest training investor, which may seem somewhat higher than previous studies would suggest. However, it may be that the findings here are affected by the home status of this group of companies.



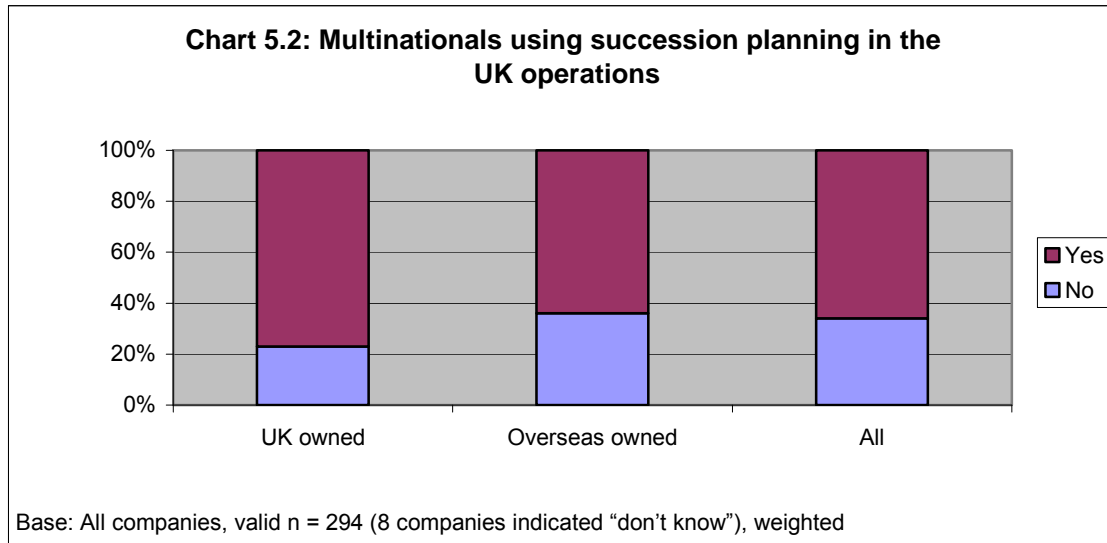
From the data it is clear that MNCs approach the issue of training expenditure quite differently, with variations based on country of origin. These variations are consistent with arguments about the effects of national educational and training norms on MNC practice, and the evidence suggests there is a degree of transfer of some of these country of origin effects overseas through subsidiary operations. In addition, we see that expenditure by UK MNCs is higher than we might have anticipated. Some caution may be needed in comparing the training expenditure figures for home-owned companies to those of the overseas-owned MNCs as high investment levels may in part be explained by the home status of the UK operations in these firms.

Succession planning

Succession planning is one of the primary mechanisms firms adopt to identify senior management talent within the organisation. In MNCs, the pool of potential talent spans national borders. Therefore we might expect succession planning activity to be global in scope.

In total, 65% of multinationals have a succession planning system (Chart 5.2). However, these are more common in UK MNCs (76%) than in overseas firms (62%). These findings might be explained in terms of two distinct factors. First, this may be an area where UK MNCs have a strong expertise and tradition. Second, the results may be linked to the qualitative differences between UK-owned and overseas-owned operations. Looking in more detail at the profile of the HR function within the UK MNCs, we see that 18 of the 32 firms using succession planning systems have HR

functions integrated with a higher-level HR function and 56% of these have responsibilities for global HR policy. This suggests that the global policy role undertaken by the UK operations' HR function may contribute to the greater presence of succession planning in the UK companies.

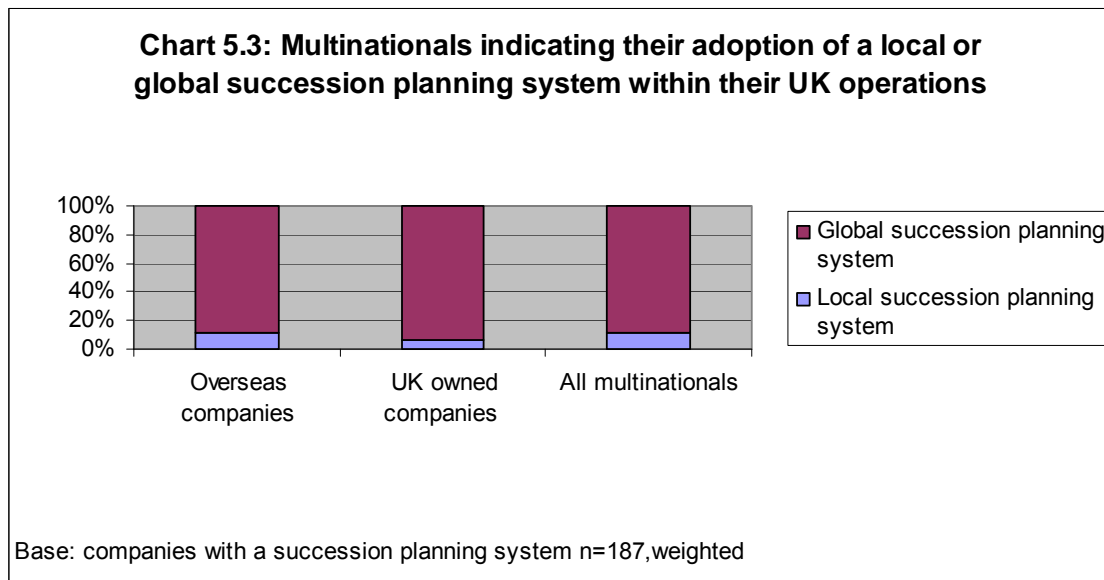


Further exploration of the use of succession planning by nationality shows an interesting pattern, though the results need to be treated with caution given the small sample sizes. Overall, 7 in 10 companies adopt succession planning irrespective of their national origin. However, in the case of the Japanese companies this figure falls to less than 5 in 10. In chapter 3, analysis of the nationality profile of the top team in the UK operations of Japanese MNCs showed that a high proportion of the top management positions are held by home-country (i.e. Japanese) nationals compared with other overseas companies. The strong presence of expatriate managers in Japanese MNCs, highlighted in chapter 8, may to some extent act as a substitute for formal succession planning systems, and provide Japanese companies with an alternative mechanism for identifying and organising managerial talent internationally. Overall, the results are consistent with other work that shows that Japanese MNCs are much less likely than European or US MNCs to involve local managerial employees in international development activity (Kopp, 1994).

Of those with a succession planning system, the overwhelming majority of multinationals indicate that it is global as opposed to locally specific (Chart 5.3). This trend towards the use of a global succession planning system is fairly consistent across UK and overseas companies. There are no significant differences between organisations in their adoption of succession planning (global or local) depending on their strategic focus on integration, or level of diversification. This may be because other factors such as HR structures act to mediate the relationship between strategic concerns and HR practices such as succession planning.

The adoption of succession planning is significantly associated with the collection of data on management career progression by a higher organisational level. This is not surprising, but it demonstrates that where succession planning is used within UK

operations it is likely to be monitored by a higher organisational level. The analysis also shows that succession planning is common in operations that are subject to a high degree of monitoring on a range of HR issues (e.g. managerial pay packages, labour costs, staff turnover, employee attitudes). These findings suggest that organisations adopting succession planning are likely to have a range of HR systems that are closely monitored from higher organisational levels.



The use of succession planning is associated with HR coordinating structures. Where organisations use formal committees of senior managers at the worldwide level to develop global HR policy, or bring together HR managers on a regional and/or global basis, the use of succession planning at the UK operations level is also more likely.

The survey explored the degree of discretion of UK operations over determining policy on succession planning. In general, the level of discretion is low. Among the 138 overseas companies that use succession planning, only 20% have full discretion, a further 20% have no discretion, and the remaining 60% have some degree of discretion. The degree of discretion is significantly higher for those using a local rather than a global system, which might be expected. Thus, for the majority of organisations, succession planning within the subsidiaries is a global system aimed at identifying local managerial talent for global purposes.

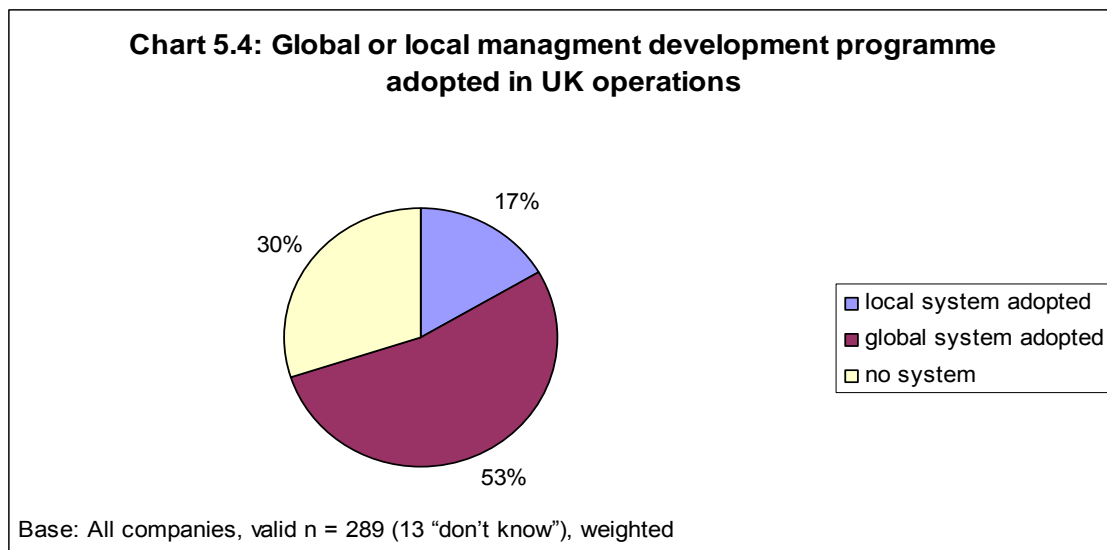
Overall, the findings for organisations using succession planning illustrate its central role as a global mechanism for managing managerial talent. Its association with other worldwide HR coordination and integration structures suggests that succession planning is one of a range of tools adopted by multinationals to promote international HR integration. The findings also suggest that in companies with a higher degree of integration, subsidiary-level human capital is more a global than a local resource. However, succession planning is not universally adopted. The variation in its use by MNCs from different countries suggests it is an HR tool that, in some instances, remains sensitive to home-country HR traditions and preferences.

High potential training

In this section high potential training programmes for managers are explored. Three issues are examined:

- The extent to which high potential programmes are adopted, and the substance of these programmes;
- factors influencing divergent company practice;
- the extent to which high potential training programmes differ for managers and the key group.

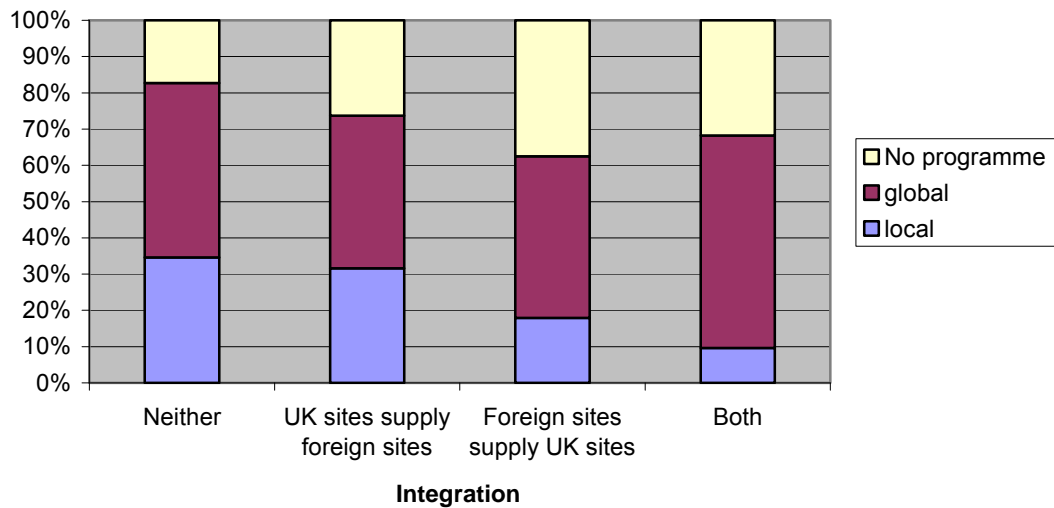
The analysis begins by exploring the adoption of high potential training programmes among MNCs. Organisations were asked if their UK operations had a management development programme specifically aimed at developing its 'high potentials' or senior management potential. The data show that high potential programmes are adopted by 70% of organisations; 30% of organisations are not using them. Organisations were asked whether they used a global high potential programme that was adopted elsewhere worldwide, or a local, nationally specific programme. Most organisations indicated that their programmes are global in scope (see Chart 5.4).



The adoption of global high potential training programmes is related to the extent to which the UK operations are integrated with other parts of the organisation worldwide. Specifically, the use of local high potential programmes is much higher among UK operations that have no supply relationship with other parts of the worldwide company compared with those that either supply and/or are supplied by other parts of the worldwide company (see Chart 5.5).

The pattern of use of high potential programmes is similar across organisations irrespective of their national ownership or sector. Coupled with the results on integration (above), the data suggest that high potential training is tied more with the traditions and needs of the business than the national training heritage of the parent company.

Chart 5.5: Organisations with a local, global or no high potential training programme by supply integration



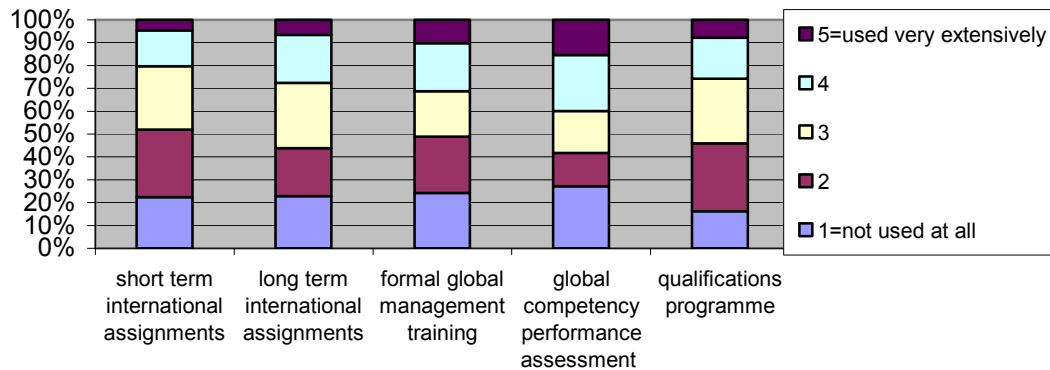
Base: All companies aware of the presence or absence of high potential training programmes and supply linkages (n=284), weighted

In terms of the substance of high potential training programmes, the survey explored how extensively the following development mechanisms are used by multinationals:

- Short-term international assignments (12 months or less);
- long-term international assignments (more than 12 months);
- formal global management training;
- assessment of performance against a set of global management competences;
- qualification programmes (e.g. MBA, professional qualification).

Chart 5.6 shows the profile of responses on each of these management development methods. Assessment of performance against a global set of management competencies tends to be the most extensively adopted, with 40% of organisations giving this a score of 4 or 5 on a scale of 1-5 (1=not used at all and 5=used extensively). Formal global management training is also important, being scored 4 or 5 by 30% of organisations. Most companies adopt a very similar pattern of use. However, there are distinct country of origin differences in the use of assessments of performance against global management competencies. For example, the use of global competency-based assessment is on average highest among French firms (3.8 average score) and US firms (3.3), which contrasts significantly with the three lowest users, namely UK (2.2), the Rest of Europe (2.2) and Japan (1.4).

Chart 5.6: Multinationals indicating frequency of use of management development methods as part of high potential programmes



Base: All companies with high potential training, valid n varies from n = 198 to n = 195, weighted

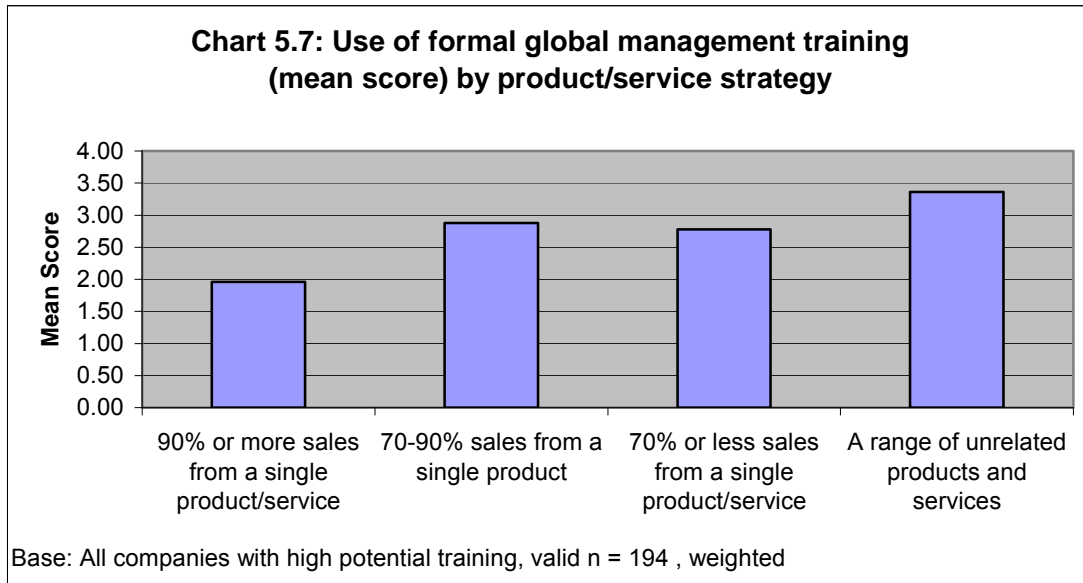
Formal global management training is associated with the diversification strategy of the company. The use of formal global management training for high potential managers is significantly more common in diversified companies. Companies are significantly more likely to use formal management training where they:

- produce a range of unrelated products/service, or
- where they have a number of products/services but no single one accounts for more than 70% of sales, or
- they have a number of products/services where one accounts for 70-90% of sales.

MNCs are less likely to use such global training where they have a single produce/service accounting for 90% or more sales (chart 5.7). Given the requirements for coordination among companies with a diversified product range, the results suggest that global training programmes may be an important HR mechanism for developing common managerial behaviours among high potential employees. Thus global training programmes appear to be an important mechanism for controlling local standards where products/services are globally integrated. Equally, however, in conglomerates where products/services are unrelated, global training programmes may provide the MNC with a means of promoting global standards of performance and behaviour among its high potential employees.

In summary, the evidence suggests that high potential training programmes are a key human capital development mechanism in MNCs. The extent to which they are global rather than locally specific is, in part, linked to the degree of strategic integration demanded of the subsidiary. In other words where the UK operations are linked with other parts of the worldwide company, high potential training is less likely to be locally specific. In terms of the type of training provided there is a high degree of consistency between organisations. Some country of origin variations are evident in relation to

preferences for the use of global competence performance assessment among French and US companies. In addition, the MNC's product diversification strategy is linked to the use of formal global management training programmes. However, on the whole there is a fair degree of commonality across companies.



The KG and their development

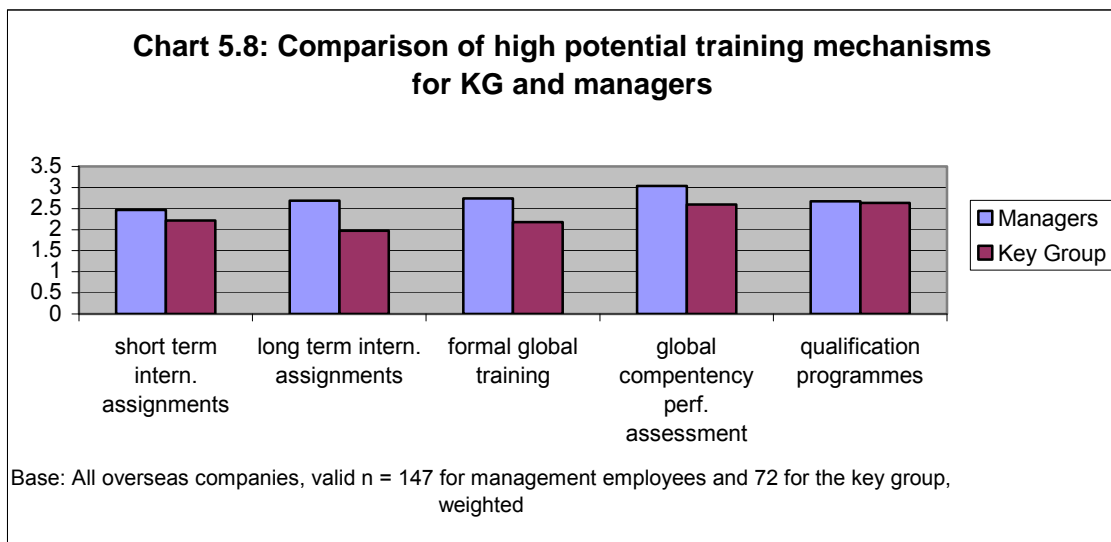
Are the KG treated differently from managers? This forms the central analytical question of this section. The analysis is split into two parts:

- First, we examine the nature of the training provided for the KG and consider the extent to which this is distinct from that offered to high-potential managers.⁷
- Second, the factors that explain variations in the provision of training for the KG are examined; these include the nationality of the MNCs, their product/service strategy, integration with other parts of the company, HR structures, size and sector.

Looking at the first of these issues, 38% of companies with a KG indicated that they also offer a specific development programme for these employees. This training is offered in other parts of the worldwide company in just over half these companies (52%), and is specific to the UK in the remaining firms. The results are therefore equivocal as to whether organisations have a preference for globalising or localising their KG training. However, the small number of companies providing specific training for the KG suggests that in the majority of companies the KG are not treated as a distinct group for development purposes.

⁷ Questions associated with the development of the key group were only asked of the overseas companies, 191 of which indicated that they have such a group. Comparisons between training arrangements for the KG and those for high potential managers are therefore restricted to overseas MNCs only.

Looking at the nature of the training provided, qualifications programmes are the most frequently used. The least used, on average, are long-term international assignments. The greater priority given to short-term international assignments may be indicative of the type of activities undertaken by the KG, which as the earlier discussion highlighted (see chapter 1) tend to be specialised, with the majority having a technical focus. Chart 5.8 illustrates the relative use of the varying training mechanisms adopted for managerial employees compared to the KG. There is some slight variation, with qualifications being the most frequently used mechanism for the development to the KG, while for managers the predominant mechanism is the use of performance assessment against global management competencies.



Drawing comparisons across the companies that offer training for both the KG and for high potential managers, the results show that each of the training mechanisms listed above is used significantly more extensively for high potential managers than KG employees.

There are few variations across companies in their provision of KG training. MNCs with a larger UK workforce are more likely to offer specific KG training. This, like other aspects of training, is most likely a factor associated with costs. There is no other variation across companies based on their sector, nationality, or product strategy.

Looking at factors that might explain the global or local scope of KG training, the analysis shows that US MNCs are more likely to provide global programmes rather than locally specific training. MNCs with a larger worldwide workforce are also more likely to offer global rather than locally specific training. This suggests that resources and economies of scale may be an important factor in explaining differences in KG training provision.

The content of the training offered to KG employees also appears fairly consistent across MNCs. The only differences found are the following:

- the use of qualifications programmes are more common among manufacturing than service-sector companies;

- the use of short-term international assignments is more likely in MNCs which have a product/service that is adapted regionally or globally standard rather than nationally adapted.

Both these findings provide additional insights into the role of the KG within companies. In manufacturing companies the KG is likely to be formally trained and the qualifications programmes may also provide professional accreditation. In MNCs with integrated product/service strategies the KG seems to play a role in the spread of knowledge through the use of short-term international assignments.

There is an association between HR structure and the provision of global rather than local KG training. For example, where the MNC has an integrated HR information system such as PeopleSoft, this is associated with the extent to which training for the KG is globalised (1-tailed test); 67% of companies with an integrated HR information system use worldwide high potential training programmes for their KG.

In sum, there appears to be a common pattern. MNCs use high potential programmes to develop managers in their UK operations in a way that promotes common global standards in local managerial capability. These programmes are particularly associated with UK operations where integration with other parts of the worldwide company is important. Thus the evidence indicates the relevance of high potential programmes as an integrating HR mechanism. There are also marked parent country preferences for how high potential programmes are used, with US and French companies focusing on measuring the performance of high potentials against a common set of global competencies. The analysis for KG training suggests that the nature of the provision is very similar to that offered to high potential managers. There are some variations in terms of the greater use of qualification programmes and short-term assignments which may be indicative of the differences between the work demands of managers and the KG. In contrast, there are few variations in the provision of KG training across MNCs. Generally, KG training is not that widespread. Among the more integrated MNCs, where it is conducted KG training is more likely to be global than locally specific. The findings therefore suggest that the KG, while easily recognisable by most MNCs as providing the organisation with distinct resources, is not generally treated as a distinct group for developmental purposes. The exception is among the more integrated and the larger MNCs where KG employees are more likely to have their own training and development arrangements. Such arrangements are in most respects similar to those provided for high potential managers.

Conclusions

In conclusion, the chapter summarises the human capital development practices of MNCs in the UK and highlights the potential role that managerial and KG resources play within MNCs. The findings show that succession planning is a widespread mechanism adopted by MNCs to identify managerial talent within the UK operations. The majority of succession planning systems are global rather than locally specific, which suggests that local managerial talent is seen by most MNCs as expertise that can be leveraged as a global human resource commodity.

To a lesser extent MNCs provide specific training for high potential or senior managers. The local or global nature of this training tends to be associated with the business needs of the MNCs. The evidence suggests that high potential training is an important integrating mechanism for MNCs, setting global standards of behaviour among local managerial employees. KG training by contrast is less extensive than that

for managerial employees. There are a few differences in the nature of the training provided which are likely to be indicative of the more technical and specialist role undertaken by KG employees in comparison with managers.

The analysis showed a number of areas of human capital development practice that are sensitive to country variation. In particular succession planning is used less extensively among Japanese MNCs. There are also differences in the pattern of investment in training and development activity. German companies are by far the greatest investors, which may reflect a focus on formalised training. This contrasts with Japanese MNCs which have the lowest spend on training; this is likely to reflect the Japanese emphasis on informal training activity. This divergence challenges arguments that MNCs are developing common global human capital development practices. Instead it might be argued that the preferences for certain development practices are anchored within country of origin preferences for international organisation and control (Harzing and Sorge, 2003). MNCs are not homogeneous in their approach to human capital development, even when they share the same country of location.

Together these findings provide an insight into how local managerial capability is developed and the extent to which it is treated as a local or global resource. The widespread use of global succession planning systems provides the MNC with a mechanism for managing talent from the subsidiary level as a global resource. The parent MNC is able to tap into its international labour market and match talent with the organisation's needs at potentially the worldwide level. In contrast, global development programmes for high potential or senior managers are directed primarily at shaping local capability in line with global organisational priorities. As such they provide the MNC parent with a form of control over subsidiary behaviour through indirect or implicit social relationships. In this way, the MNC uses its human capital development systems to create two tiers of control, i.e. succession planning and high potential development programmes. The prevalence of these two layers of control is associated with country of origin and with the degree of international integration, reflected for example in the use of HR coordinating structures or product/service strategy.

Chapter 6

Involvement, Communication and High-performance Work Practices

Introduction

Over the past 20 years, there has been growing interest in systems of employee involvement such as team work and methods for communicating with the work force. In the past ten years, this interest has intensified with the identification of 'high performance work systems' (HPWSs) which embrace involvement and communication as well as other practices (Edwards et al., 2002). As part of these debates, attention has focused on the role of MNCs in transferring the relevant practices, with Japanese 'lean production' being perhaps the clearest example (Elger and Smith, 2005). It is also commonly thought that US MNCs place particular emphasis on certain forms of communication such as attitude surveys and 'open door policies'. We therefore assessed whether there are in fact national and other differences in these areas. These debates focus on which practices are transferred. Less is known, however, about mechanisms of transfer such as conscious learning either within or between firms. This was thus another key theme.

This chapter accordingly begins by looking at the involvement of employees in the work process (sometimes called 'direct participation' to distinguish it from the representative participation discussed in Chapter 7). It then turns to arrangements for communication and the provision of information. Third, the extent of adoption of HPWSs is addressed. Finally, we ask whether the various components on involvement and communication go together to form a system or are distinct.

Direct Participation

Teams and problem-solving groups

We began by asking about the extent of two core practices, formally designated teams and problem-solving groups. These are, as might be expected, widespread, being reported by 73 and 77 per cent of firms respectively. We also asked about any other similar mechanisms, which were mentioned by 38 per cent of firms. Overall, 91 per cent have at least one such mechanism.

These practices are more common among manufacturing than service sector firms, and also where there are supply chain links between the UK company and the rest of the worldwide enterprise. They are also more common among diversified than single-product companies. UK-owned firms report direct participation practices more than do those from other countries but there are no other clear national differences. Size of the company, whether in the UK or globally, has no effect.

One measure of learning or the spread of a practice is the degree of commonality across parts of a firm. Firms with several sites in the UK and with any involvement

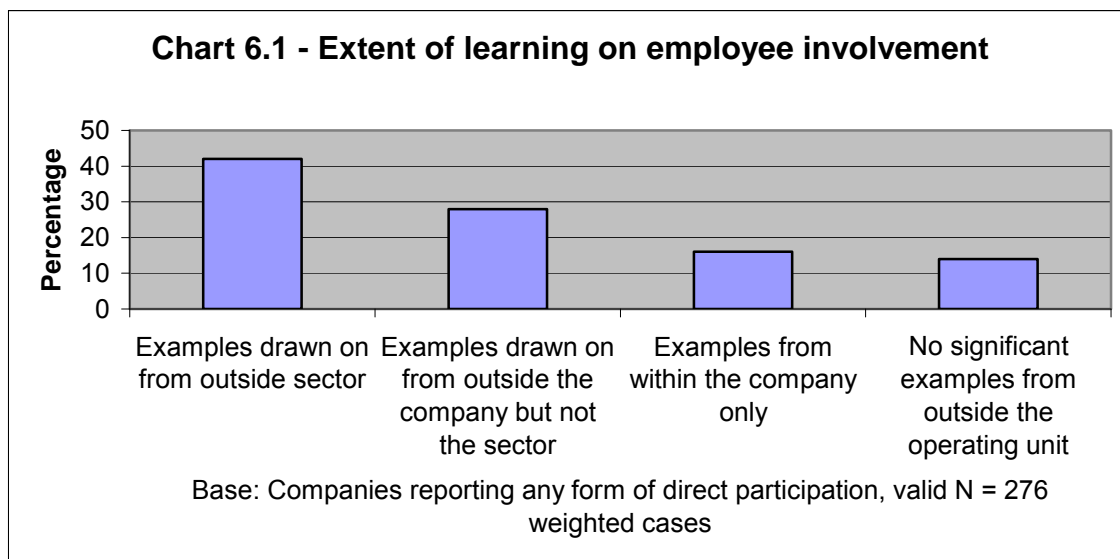
practice were asked which of the following corresponded to their situation (with percentages giving each reply):

- an identical or similar pattern exists across all or most sites (31%)
- all or most sites have involvement systems, but they differ from site to site (47%)
- some sites have involvement systems while others do not (22%).

There thus seems to be considerable commonality of practice. This is unlikely to be the result of direct instruction. As we show in Chapter 3, operating unit discretion in this area is very high, with for example three-quarters of overseas-owned firms saying that they have complete discretion over it. We also compared these with the minority where discretion was more limited, and found that there was no difference between them in the commonality of practice.

The spread of practices thus seems to reflect learning from elsewhere. We asked how far the UK company draws on examples from elsewhere in the enterprise and from other companies. Chart 6.1 summarises the responses. It points to a substantial degree of learning, with 70% of firms citing examples from outside their own company.⁸

The structural characteristics of firms discussed in Chapter 1 make no significant difference here, suggesting that learning is similar in different types of firms and is not structurally constrained. Similarly, there are no differences according to firms' national origins. There is, however, a very clear effect of the presence of mechanisms that bring HR managers together. Such mechanisms seem to have been a key device facilitating learning in this respect.



⁸ Respondents were asked about the extent to which the UK company drew on examples from elsewhere in the worldwide enterprise, on a 5-point scale. The two lowest points are combined in the last group in the table. The other three categories were differentiated using further questions about the source of the examples.

Cross-site task forces

A further set of issues is the extent to which firms use task forces or similar arrangements that function across more than one operating unit. We asked about such 'project teams or task forces' stressing that these must involve employees other than managers, rather than being purely management bodies. We then sought further details, for example on training for people involved in task forces and whether task forces exist in other parts of the worldwide enterprise.

This question was asked only where a firm has more than one UK site. Key results were as follows:

- Three-quarters of respondents report the presence of such task forces.
- Most (70%) of those with task forces involve employees from outside the UK.
- About half (51%) of those with task forces give formal training to the employees involved.
- Almost half (45%) have arrangements that embrace employees from customers or suppliers.

Task forces also exist widely in the worldwide enterprise outside the UK (82% of those with task forces).

A final indicator is the extent to which task forces embrace employees from firms with which a firm is otherwise in competition. We were thinking here of, for example, the development of common industry standards. The issue is one measure of the degree to which co-operation exists in a sector. One fifth (19%) of firms with task forces include competitor firms in them.

The implication here is that task forces working across sites are a substantial and reasonably well established practice. They commonly spread across the worldwide enterprise and they also embrace suppliers and customers and, albeit less commonly, competitors.

A summary variable was created from the question on the use of task forces. It gives a score of 1 point for each item of practice (that is, whether or not task forces exist at all, plus the five items in the list of bullet points above). This produces an index running from 0 to 6. The mean score across was 2.7, underlining the quite extensive use of the practice.⁹

Task forces are more common among manufacturing than service sector firms. There is no difference according to the region in which the UCC was located.

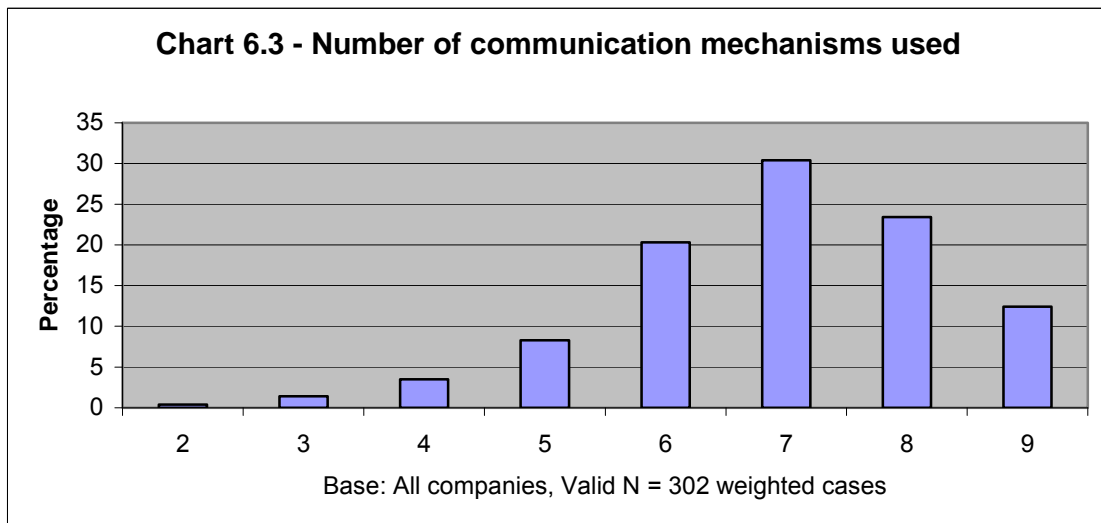
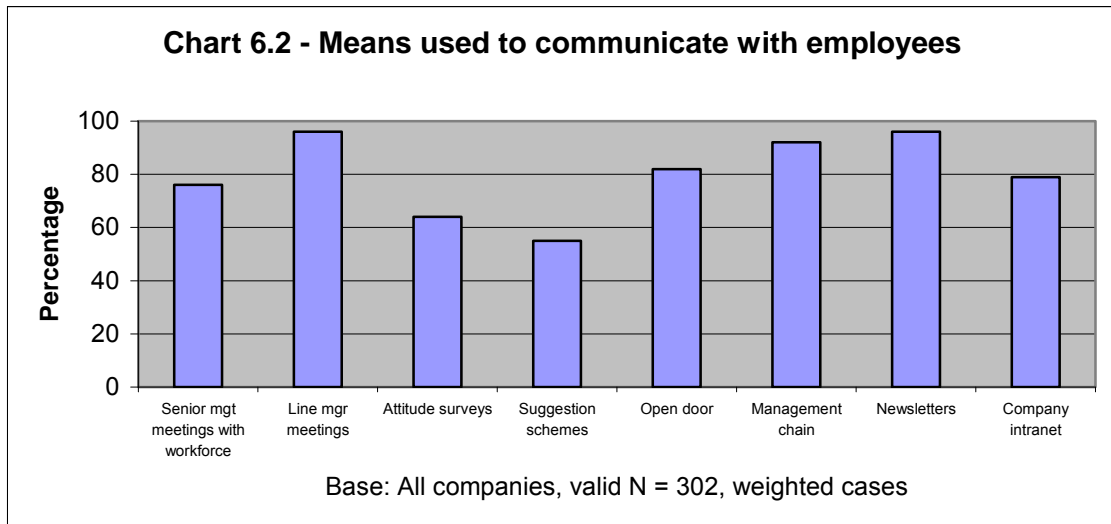
One might expect task forces to be most developed where firms produce single products. In fact, they are most likely in the relatively diversified firms, suggesting that they may be used in such firms to share knowledge from different areas of expertise. They are also, as might be expected, more likely where the UK operations supply or are supplied by other parts of the worldwide enterprise.

The organisation of the HR function plays an important role here. Where a firm has an international HR committee and means of bringing HR managers together, it is more likely to have highly developed task forces.

⁹ Note that 14% scored zero on this measure. This is less than the 25% not having any project teams in the UK. The difference is due to the fact that we asked all respondents about worldwide teams, and thus 11% reported the presence of the task forces elsewhere in the worldwide enterprise even though there were none in the UK operations.

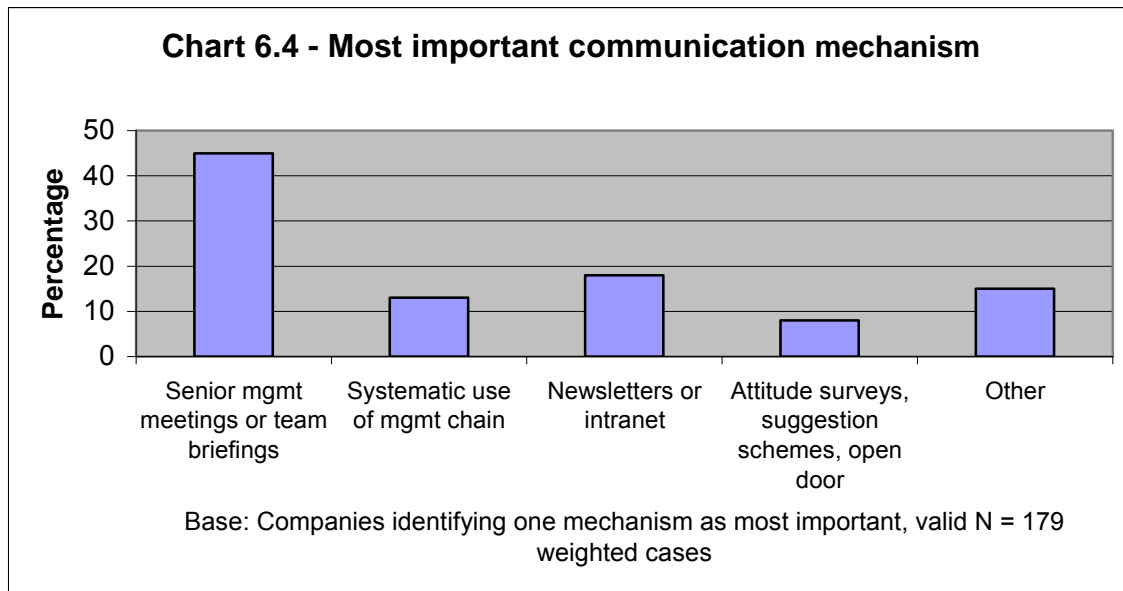
Communication and Information

Means to communicate with employees are very widespread. We asked about a set of eight possible mechanisms. As shown in Chart 6.2, each is used by over half the firms, and six of them are used by more than three-quarters. Including other mechanisms not listed gives a possible maximum of nine. No company uses fewer than two, and more than a third (36%) use eight or nine (Chart 6.3).



Asked whether they gave priority to any one mechanism, about 40 per cent of respondents said that they did not, suggesting that for them communication is a multi-faceted activity. Of those prioritising one mechanism, most emphasis is placed on meetings between managers and employees and cascading information down the management chain; 58 per cent of replies mentioned these mechanisms (Chart 6.3). It is thus notable that mechanisms such as attitude surveys and open door schemes,

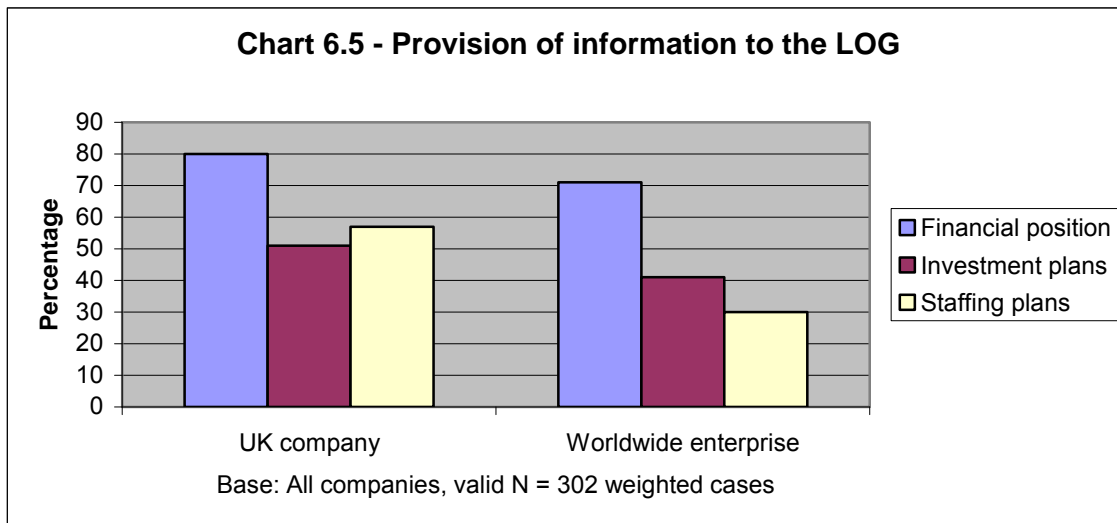
which are sometimes seen as the more 'sophisticated' two-way communication mechanisms, receive relatively little emphasis.



Previous research has found that US firms give particular emphasis to open door policies and to attitude surveys, which is sometimes seen as a reflection of sophisticated 'welfare capitalist' policies (Jacoby, 1997). We found no evidence of this in the present sample. Indeed, only two US firms said that they put particular weight on these mechanisms. This result may be one reflection of the breadth of the present survey: it is the case that there are large US firms practising welfare capitalism, but among the wider sample studied here US firms do not stand out from those based in other countries.

To assess influences on communication practices, we compared the number of mechanisms used across companies and also separated out those using a large number of mechanisms (7 or more) from the rest. Since communication practices are widespread, few sharp differences are to be expected. The region of origin of the UCC is not significant, and the non-distinctiveness of US MNCs is confirmed; UK MNCs, however, report more extensive use of communication mechanisms than do overseas firms. The existence of HR committees is again important. And there is some tendency for the more diversified firms, and those with stronger international integration of production, to use large numbers of communication mechanisms.

In relation to information provision, we asked about information that was given to the largest occupational group in relation to both the UK operations and the worldwide enterprise. Three types of information were identified. As can be seen from Chart 6.5, information is provided extensively, and employees are informed about the worldwide enterprise as well as the specific UK company.



Provision of information is more extensive in manufacturing than in service sector firms. The organisation of the HR function again plays a role here: international links within the function are associated with the provision of information on more issues. Measures of company structure play more of a role here than in relation to communication: diversified and integrated firms provide more information than do others. There is little difference according to the UCC of the firm, though there is some tendency for Nordic companies to provide relatively large amounts of information.

There is also a very clear pattern in relation to information on the UK company and the worldwide enterprise. The measures of HR integration are not associated with the first but are strongly associated with the second. This result adds plausibility to the analysis: having international HR linkages does not affect what goes on inside the UK company in this respect, but it does promote the sharing of information about the wider enterprise with UK employees.

'High Performance' Work Practices

Over the past decade a major – indeed, some would say the major – debate in HR circles has concerned the characteristics of 'high performance' work systems, what kinds of organisation adopt them and how far they contribute to organisational performance. Though the debate is far from settled, it is reasonably well established that there is no fixed or uniform high performance system and that the effects on *organisational* performance are often weak and variable (Wall and Wood, 2005). Firms in the present survey, being large multinational firms, might be expected to be at the forefront of the development of high performance systems. We thus assessed how common the systems are and what factors influence their use.

Most debate speaks of the systems as they relate to employees in general, and we thus derived measures in relation to the LOG. As to what the systems comprise, some definitions are specific, focusing on such things as team work and problem-solving groups. Some are very broad, embracing communication and employment security. In our view, such activities may promote or be correlated with 'high performance' systems but should be kept separate from them: communication, for example, does not necessarily mean that there is a strong focus on employee performance.

We followed scholars who use the concept of ‘discretionary effort’: the willing deployment of skills and abilities by employees over and above the basic needs of the job (Appelbaum et al., 2000). A central element in ‘performance’ is also the use of systems that define and measure it: a ‘high commitment’ organisation might focus on employee engagement without attempts to link such engagement to hard outcomes, whereas the idea of performance also picks up on the use of performance management techniques. We thus identified nine measures, with the rationale as indicated in Table 6.1.

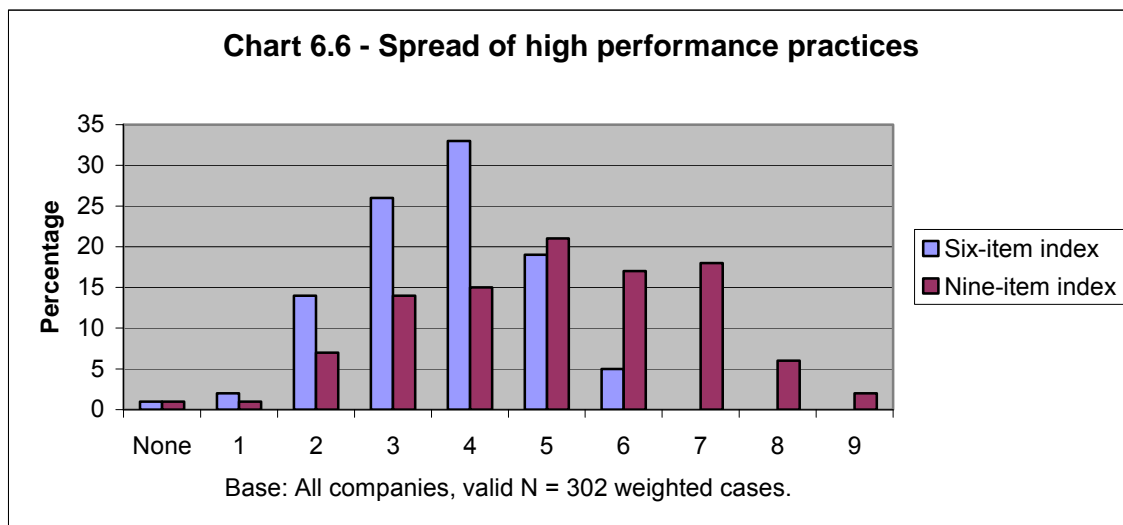
Table 6.1: Measures of high performance practices

Measure	Rationale
Use of teams or problem-solving groups	A core performance-oriented practice which allows discretionary effort to be put in
Emphasis given to training	If employee engagement is important, then training has value directly in empowering workers to deploy skills, and indirectly in terms of the message that is given about a firm’s commitment to its staff
Use of variable pay	If such pay is available, workers may be more likely to offer discretionary effort
Use of any financial participation, e.g. profit-sharing	(as above)
Use of performance appraisal	Indicates attention to the measurement of performance
Use of 360-degree systems	(as above)
Performance appraisal a formal input to decisions on redeployment etc	(as above)
At least 1 performance criterion (individual, group or organisational) rated as ‘very important’ in relation to variable pay	Indicates organisational emphasis on relating performance to rewards
Project groups exist	Measure of work organisation promoting discretionary effort

The logic here merits explanation. We do not necessarily expect these items to be associated with each other. Indeed, we show below that they are not. The point is to take some reasonable definitions of a high performance system and to see whether there is evidence of such a system in the sense of a set of practices that cohere into a clear pattern. The subsidiary logic is to say that having more practices – albeit of a different kind – pushes an organisation towards a certain style of operation, and then to ask whether those with a large number of practices differ from others.

The first six items comprise our core measure. The final three operate at a greater level of detail. For example, the use of performance appraisal as a decision input rests on there being appraisal, and, at a more conceptual level, the meaning of whether or not it is used as a decision input may vary between firms: it is a less sharp indicator than simply whether an established practice such as appraisal exists or not. We therefore used both indices, though in fact most associations with the two measures proved to be very similar.

Chart 6.6 shows the proportion of firms with various scores on the two measures. As can be seen, very few firms had all the relevant practices in place (5 per cent on the simpler measure and 2 per cent on the more demanding one). The overall picture was of a spread around a mean near the mid-point of the possible range.



We also looked at patterns within the index. A firm might, for example, focus on performance management exclusively, or use this technique along with financial incentives. We identified three measures for each of the 'performance', 'pay' and 'work organisation' aspects of the overall index and then separated out those firms using all the relevant practices. For example, 'performance' means having all of: performance appraisal, 360-degree systems and use of appraisal as a formal input to decision-making. The proportions of firms having each of these sub-systems are:

- Performance 7%
- Pay 24%
- Work organisation 31%

We then asked whether such sub-systems are used alone or in combination with others. Proportions in the relevant categories are:

- Performance only 3%
- Pay only 15%
- Work organisation only 22%
- Performance & pay 3%
- Performance & work org. 3%
- Pay & work org. 6%

There are thus 14% of the sample with at least two sets of practices fully in place (the last 3 groups in the above list, plus the 2% with all practices present). Forty-six per cent of the sample have no set of practices fully present.

A final set of tests is whether the sets of six or nine practices form a reliable single scale and whether there are some underlying factors that can be extracted statistically. In fact, there is no single scale. Nor is there a reasonably small or understandable set of factors; such a set would, for example, generate measures that load heavily on the pay and the performance criteria. This suggests that there is no underlying dimension and hence that there is no single thing called a 'high performance system'.

This set of results as a whole goes against arguments that distinct 'bundles' of high performance practices are widespread. They are consistent with workplace-level studies (Cully et al., 1999). Instead, firms seem to combine elements of these practices in their own ways.

In terms of influences on these measures, we found several important associations.

Size of firm. High performance practices are more extensive in large than in small firms. This may reflect the greater ability of large firms to invest in the practices. To test this, we correlated use of the practices with expenditure on training and development, and found the expected positive association. In addition, firms with many sites have a higher 'chance' of recording the practices than do single-site operations. We found a positive association with the number of sites.

Sector. Given that several of these practices have their roots in manufacturing, they might also be expected to be most common in this sector, but in fact they are more widely used among service sector firms. This is important evidence that 'new' practices or sets of practices may now be most common outside those parts of the economy traditionally associated with them.

We also looked at the presence of *any* of the three sub-systems and at the two most common patterns across them (pay only and work organisation only). The use of pay, either at all or alone, is most common in the service sector, and work organisation alone is least common here. There is no evidence that performance-oriented approaches are any more or less common here than in other sectors. It seems that the service sector uses 'high performance' arrangements to a high level, with a particular emphasis on financial incentives.

Country of origin. The practices are also often associated with 'Anglo-Saxon' models of capitalism. The results are consistent with this in that the two indices, particularly that with nine items, are higher in UK and US firms than elsewhere, with low scores among continental European firms. This result comes out particularly strongly when we look at the use of pay systems, which are most common in US and UK firms and least used by Japanese and German firms. The use of 'pay only', for example, occurs among 22% of US firms, 6% per cent of German and none of the Japanese. This picture is consistent with the findings of Chapter 4.

HR structures. HR integration is important, with firms having systems linking HR managers internationally being the most likely to have a large number of high performance practices. There is also an association with the number of HR items on which data were collected and with the number of communication mechanisms in use. There is a clear link with the use of joint ventures, with the implication that firms that are strategically engaged in this respect are also the

most likely to use high performance practices. A relationship with the diffusion of HR practices (see Chapter 9) tells a similar story.

Market conditions. We also looked at links with the market, on the argument that turbulent conditions might reduce the usage of high performance practices. Similarly, firms with a relatively low-wage policy might be the least likely to use the practices. There are in fact no clear links with indicators such as the number of competitors, whether or not a closure of a site had been undertaken, and the firm's policy on pay levels in relation to the market average. We also tested this issue by separating out firms with very low or very high usage of high performance practices. They are not differentiated by market indicators.

Employee representation. A final issue that has caused much debate is the relationship between high performance practices and employee representation, through trade unions or other means. One view is that unions stand in the way of the relevant practices, whereas the alternative is that they in fact assist in their delivery. UK evidence at the level of the workplace generally suggests that high performance systems are in fact most common where unions are also present (Cully et al., 1999). We looked at whether unions are recognised anywhere in the UK operations and at the presence of any non-union representative structures (as detailed in Chapter 7).

There is a link with union recognition, with firms with unions reporting relatively low use of the practices. For example, on the 6-item measure, 15% of unionised firms report using five or six of the measures, as against 33% of non-union firms. Non-union representative arrangements display no association with high performance practices.

Which of the parts of the high performance measures are driving this result? When we look at the sub-systems indicated above, there is a tendency (in line with the results of Chapter 4) for the 'pay' sub-system to be rarest in unionised firms. By contrast the use of work organisation alone is more common in such firms. We also checked whether a 'union effect' might in fact reflect the fact that high performance practices are most common in the service sector, where unions tend to be weak. In fact, the union influence continues to be significant. Unionisation thus does not go along with certain aspects of the high performance model, notably variable pay and the extensive use of financial participation, but it seems consistent with other parts of the model.

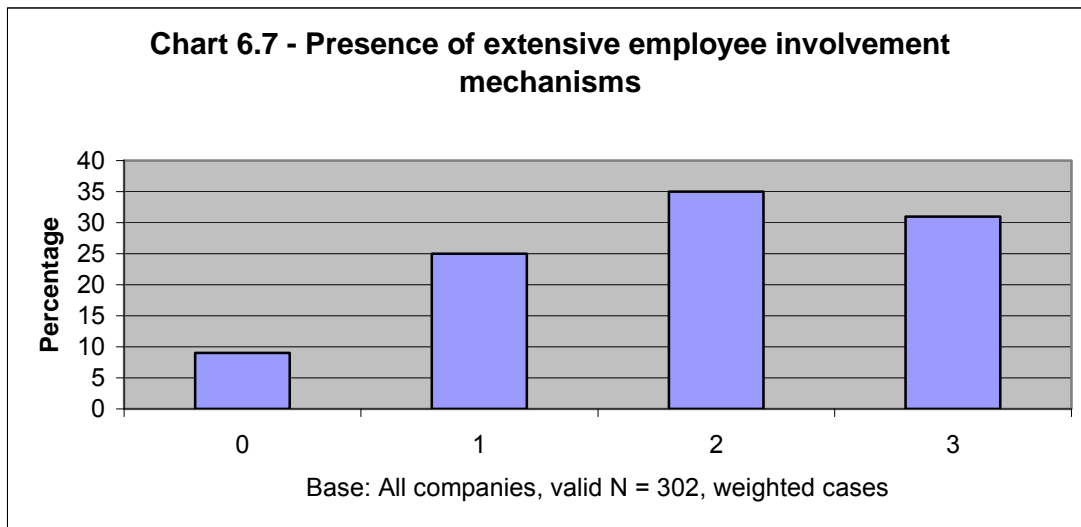
Overall, high performance practices are widespread, without, however, forming a discrete bundle that is used at all commonly. They are not restricted to firms with a particular market position or organisational structure. But they are encouraged by HR integration. They thus seem to part of the ways in which many firms do business, but by the same token do not constitute a distinct package of competitive advantage.

Integrated Involvement and Communication?

Finally, we comment on the extent to which the issues analysed in this chapter are connected with each other. Do firms using direct participation systems also have task forces and practise extensive communication with and information provision to their employees? The more that there are links of this kind, the more can firms be said to have an integrated approach.

There is evidence of such integration. Firms using problem-solving groups are the most likely to use a large number of communication mechanisms and to provide information on a large number of topics. The presence of task forces has similar associations with these latter two measures, as do the subsequent indicators of task force practice such as whether they embraced customers; the summary index score was also positively associated with the extent of communication and information.

We then sought out a pattern of high employee involvement. We identified three indicators: use of problem-solving groups; a large number (7 or more out of 9) of communication mechanisms; and information giving on several items (4 or more out of 6). As Chart 6.7 shows, nearly one-third of firms have the highest score, while a further third have two of the three items.



We also looked at presence of task forces where this question was asked. This measure has a maximum of four, compared to the three with the previous index. Here, a quarter (27%) of firms scored the maximum of 4, and 30% scored 3.

Analysis of the characteristics of the highest-scoring firms (that is, comparing the 'top' 31% in Chart 6.7 with all others) revealed patterns similar to those discussed above. They were most likely to have supply links between the UK company and the rest of the worldwide enterprise and to have internationally integrated HR functions. They were also the most likely to practise the diffusion of practices from the UK worldwide (see Chapter 8). UK firms also stand out among the high scoring group. We looked at this in more detail, and found that these firms were also least likely to be in the 'zero' group in Chart 6.7 and to be more likely than firms of other origins to have each of the three component measures. In that there were no size or sector effects, it appears that UK-owned firms are genuinely more likely to use extensive employee involvement and communication devices.

Conclusion

Practices in the area of involvement, communication and information provision are widespread. There is also evidence of extensive learning from outside the firm itself and of the use of task forces as a learning mechanism. The practices are associated with each other, and they are most developed in the globally integrated firms.

Aspects of high performance practices are widely used. They do not, however, form a discrete bundle of integrated activities. Similar results have been reported from establishment-level surveys, but the present study is one of the few to look at the issue at the level of the company. It is not the case that MNCs have standardised on a particular set of practices. Rather, any one firm uses a combination of elements which is different from that used in other firms.

Finally, there is no association between extensive use of involvement and communication practices and whether or not a firm recognises trade unions. Direct and representative arrangements seem independent of each other. It is to the latter that we now turn.

Chapter 7

Employee Representation and Consultation

Introduction

MNCs from different countries of origin are widely held to have distinct preferences over the presence of employee representative structures and the form that employee 'voice' over management decisions may take. Such preferences are said to derive from the national models of employee representation and voice which prevail in the different countries of origin in which MNCs have their organisational roots. Existing research has established that these preferences translate into differences in practice in the UK. For example, evidence from a number of studies confirms that US-based multinationals show a distinct tendency to be non-union (Ferner et al., 2005), whereas German-based MNCs are more likely to have representative-based forms of employee voice than their American counterparts (Tüselmann et al., 2005).

Other factors also have a bearing on whether employee representative structures are present in companies and on the form that employee voice takes, reflecting amongst other things the capacity of trade unions to secure recognition from MNCs. In general terms, trade unions remain rather stronger in manufacturing than services with consequent effects on the incidence of recognition. To the extent that the past decade has seen a steady weakening of trade unions, recognition might seem less likely amongst MNCs which have established operations in the UK more recently compared with those which are longer established.

Legislative intervention also shapes practice. Whilst the UK's statutory trade union recognition procedure which came into effect in 2000 has not had any widespread impact (Kersley et al., 2005), there is considerable interest in the potential impact on the presence and form of arrangements for employee consultation of the UK's 2005 Information and Consultation of Employees (ICE) Regulations (Hall et al., 2002). Conducted about a year after the Regulations came into effect for undertakings with 150 or more employees in the UK, the survey is well placed to throw light on ways in which MNCs are responding to the new requirements.

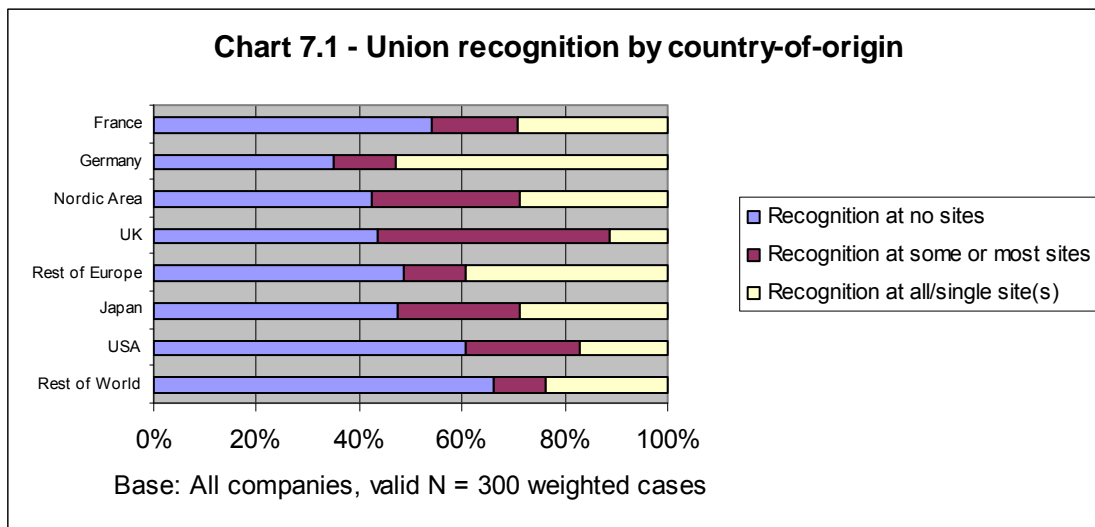
The chapter has two main sections. The first starts by examining patterns of union recognition, the existence of non-union based representative structures and recent changes in the pattern of union recognition. This is followed by a review of management policy towards trade unions. The second addresses the existence of representative-based arrangements for employee consultation within multinationals' UK operations, and the existence of a European Works Council. It concludes by examining the relative emphasis management places on indirect and direct forms of employee involvement and consultation.

Union and Non-Union Representation

Patterns

Unions representing the largest occupational group (LOG) are recognised at one or more sites in 47% of MNCs with operations in the UK, including 16% across all sites,

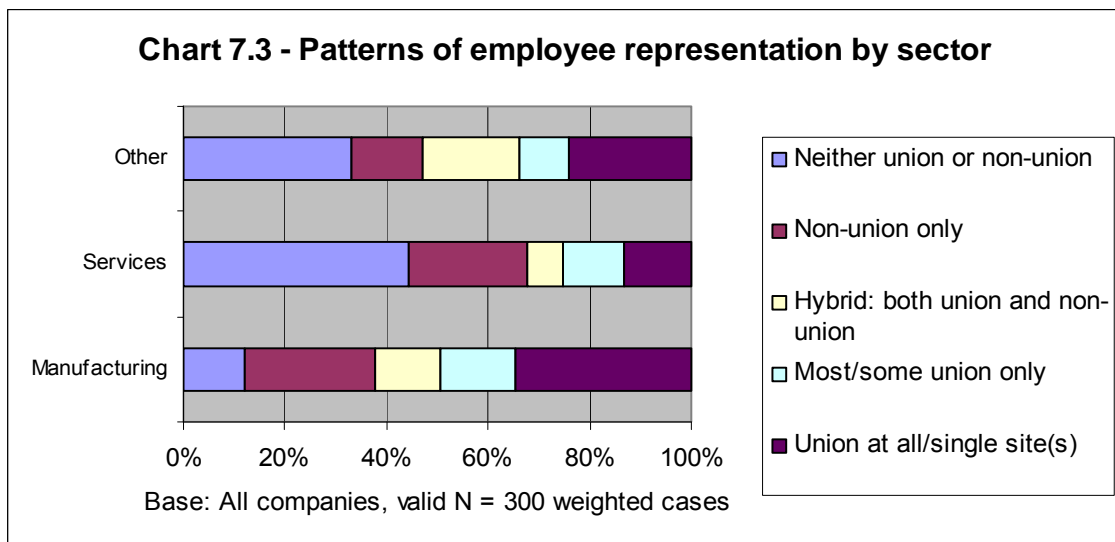
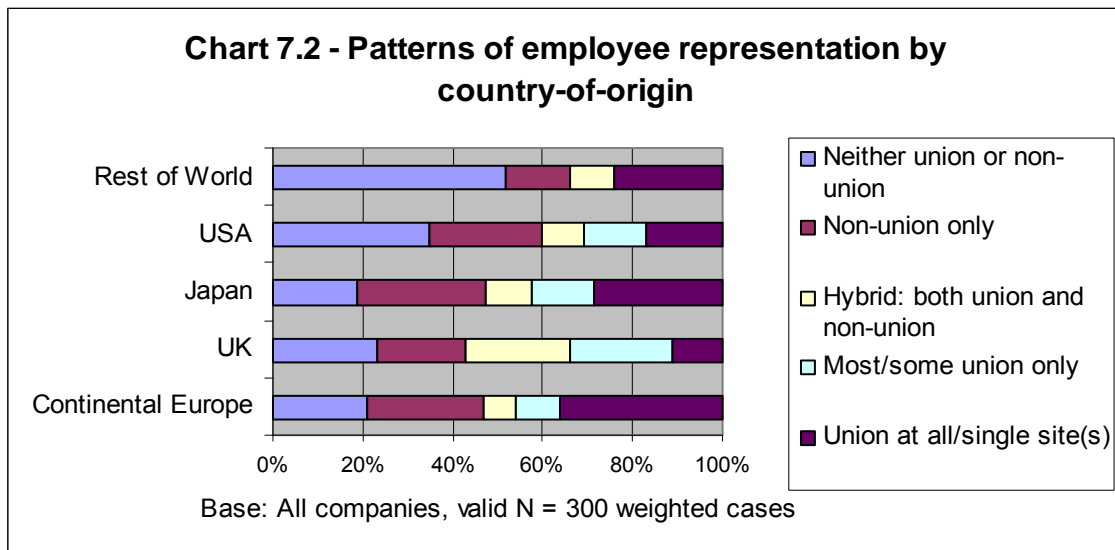
23 per cent at some or most sites and 8% at a MNC's single UK site. Collective bargaining over pay occurs in nine out of every ten cases where there is union recognition. As Chart 7.1 shows, there are some distinct patterns according to country of origin (single sites were combined with all sites because of the small number of cases in the first category). US and Rest of the World (RoW), but also French, MNCs are the least likely to recognise trade unions at any site. German MNCs are the most likely to recognise unions at all sites / their single site. UK MNCs are the most likely to recognise unions at some or most sites. Setting aside cases where there is a single site only (most of which belong to overseas-owned MNCs), UK-owned multinationals remain more likely to have a mix of recognition and non-recognition across sites than overseas-owned companies, perhaps indicating a more pragmatic approach. Sector differences are evident too: union recognition is more than twice as common amongst manufacturing MNCs compared with those in services. Unexpectedly, it is also more widespread amongst overseas MNCs which have been operating in the UK for less than five years as compared with those which are longer established. This difference is attributable neither to the country of origin of recently established MNCs nor to their sector. Larger MNCs, in terms of both UK and worldwide employment, are more likely to have a mixed pattern on recognition than smaller ones. A mixed pattern of recognition is most common amongst MNCs diversified into unrelated businesses, and least so amongst those focused on a single business.



Non-union representative arrangements for the LOG exist in approaching one-half of those MNCs not recognising unions at any site, with the majority (4 out of every 5) having arrangements covering all sites or a MNC's single UK site. A similar proportion of companies with union recognition at some or most sites also have non-union representative arrangements at other sites where there is no union recognition. Taken together, these two groups account for one-third of all cases (34%). Non-union representative structures are most likely to be found amongst MNCs based in France, Germany and Japan and least likely amongst RoW and US MNCs. They are also more widespread amongst manufacturing than service MNCs.

Charts 7.2 and 7.3 summarise the pattern of union recognition and non-union representative arrangements by country of origin and by sector. US and RoW MNCs are the least likely to have any form of representative structure. Japanese MNCs are

the most likely to have non-union arrangements only. A mixed pattern, with both union and non-union arrangements or union only at some/most sites, is most common amongst UK MNCs. MNCs from continental Europe are the most likely to recognise unions at all sites or their single site. Both union and non-union arrangements are more widespread amongst manufacturing, than service sector, companies: approaching one-half of service MNCs have neither union nor non-union based representative arrangements, compared with 12% of manufacturing MNCs. There is also variation according to length of time operating in the UK and diversification: MNCs with operations in the UK for less than 5 years are the most likely to have representative arrangements, either union or non-union; MNCs diversified into unrelated businesses are the least likely to have any representative arrangements.



Union recognition for the key group, where one was identified, is less widespread than for the LOG, occurring at one or more sites in 11% of cases. There are no significant differences by country of origin. Recognition is almost twice as common amongst MNCs in manufacturing as compared with services. This is the only aspect of employee representation for the key group about which we asked.

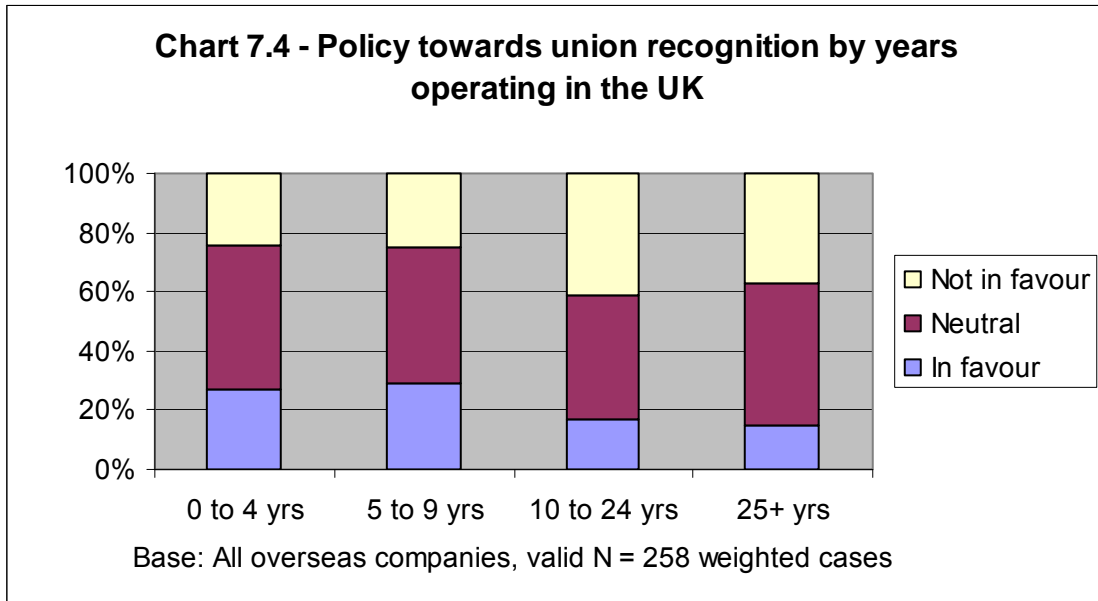
Changes

There is a discernible trend away from union recognition at new sites, but little change in recognition status following the acquisition of sites from other companies. Sixty MNCs with more than one UK site, and recognising unions in at least some, reported opening one or more new sites over the previous 3 years. Of these, 25 (42%) had not recognised unions at any new site, whilst 18 (30%) had recognised unions at each new site. The remainder had recognised unions at some. At acquired sites existing arrangements are overwhelmingly likely to continue.

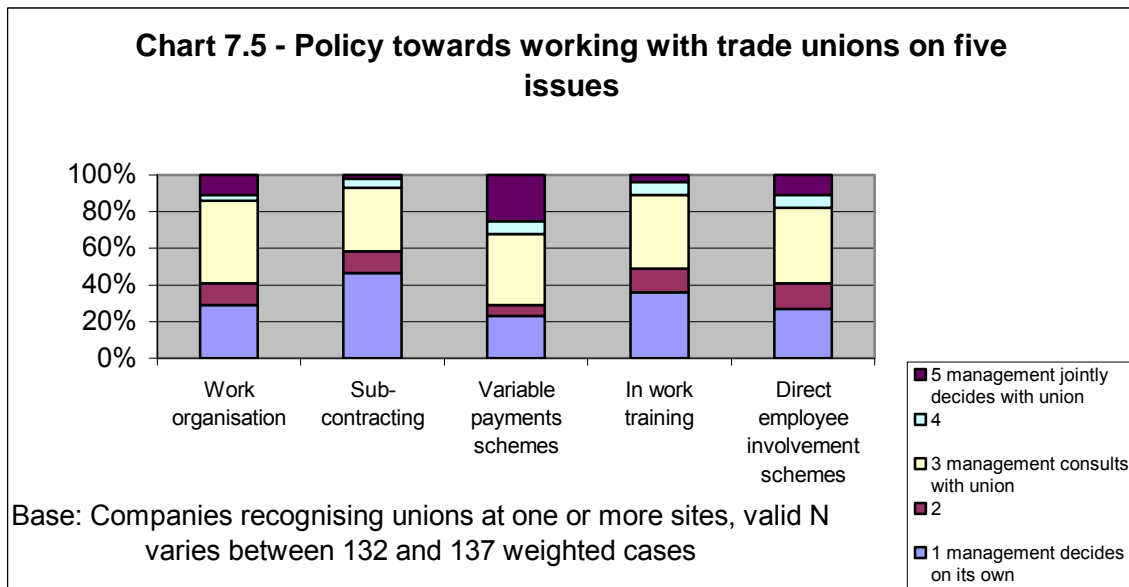
Conversely, non-union representative arrangements are becoming more common: of the one-third of MNCs concerned, half (51%) reported that these arrangements had been established within the previous 3 years. The impact of the UK's ICE regulations is apparent; two out of every three of these cases also reported establishing new arrangements for employee consultation over the past 3 years (see below).

Management policy

Asked to describe management policy towards union recognition, 21% of respondents stated that they were 'in favour of union recognition', 35% that they were 'not in favour' and 44% that they were 'neutral'. These responses correlate strongly with the pattern of union recognition reported above, although one in six respondents stating 'not in favour' are from MNCs which recognise unions in at least some sites. As with patterns of union recognition, management policy in US and RoW MNCs is least likely to be 'in favour' of union recognition, whilst that in German MNCs is most likely to be 'in favour'; policy in manufacturing MNCs is more likely to be 'in favour' of union recognition than in service sector companies. Chart 7.4 shows a significant difference between overseas MNCs with operations in the UK for less than 10 years as compared with longer established companies, with MNCs more recently established in the UK being more likely to have policy 'in favour'.



Where unions are recognised, management most usually either consults or takes decisions on its own on matters beyond wage negotiations. Chart 7.5 shows for a range of five issues that, with the partial exception of variable payments schemes, decisions are less frequently taken jointly.



Combining these five items into a scale measure¹⁰ of management policy towards working with trade unions, German MNCs engage most extensively with trade unions, whilst those from Japan, the Nordic countries and the US engage least extensively. MNCs in manufacturing engage more extensively with unions than do those in the

¹⁰ Cronbach's Alpha = 0.67

service sectors. The largest MNCs, in terms of both UK and worldwide employment, also engage more extensively with unions than their smaller counterparts.

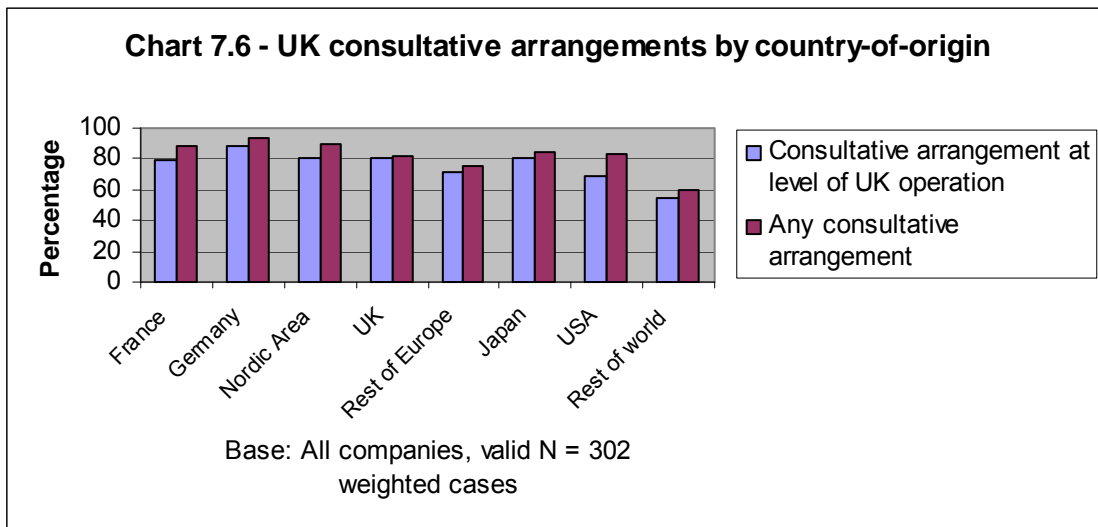
Policy towards overseas operations

Managers in UK-owned MNCs were additionally asked about the relationship with trade unions in overseas operating companies. Five companies did not provide a response. Of those that did, almost one-half (46%) said that local management are expected to follow local practice. Twenty-one per cent have a general policy, either not to bargain with trade unions, including via an employers’ association (13%), or to bargain with trade unions (8%). The remaining 33% have no policy. Unsurprisingly, policy towards relations with trade unions in overseas operations is related to management policy on union recognition for the UK operations: a general policy not to bargain with trade unions in overseas operations goes together with not being in favour of union recognition in the UK, and vice versa. Where management is neutral towards union recognition in the UK operations, it is most likely to leave local management overseas to follow local practice.

Employee Consultation

Patterns

Almost three quarters of MNCs (73%) report that there are regular information and consultation meetings between management and employee representatives at the level of the UK operation. There are regular meetings below the level of the UK operation, covering individual sites or groups of sites, at 77% of multi-site companies. In total, 82% of MNCs have consultative arrangements at either or both of these levels. Chart 7.6 shows few marked differences according to country of origin, with the exception of MNCs from RoW which are noticeably less likely to have consultative arrangements at the level of the UK operation or levels beneath this.



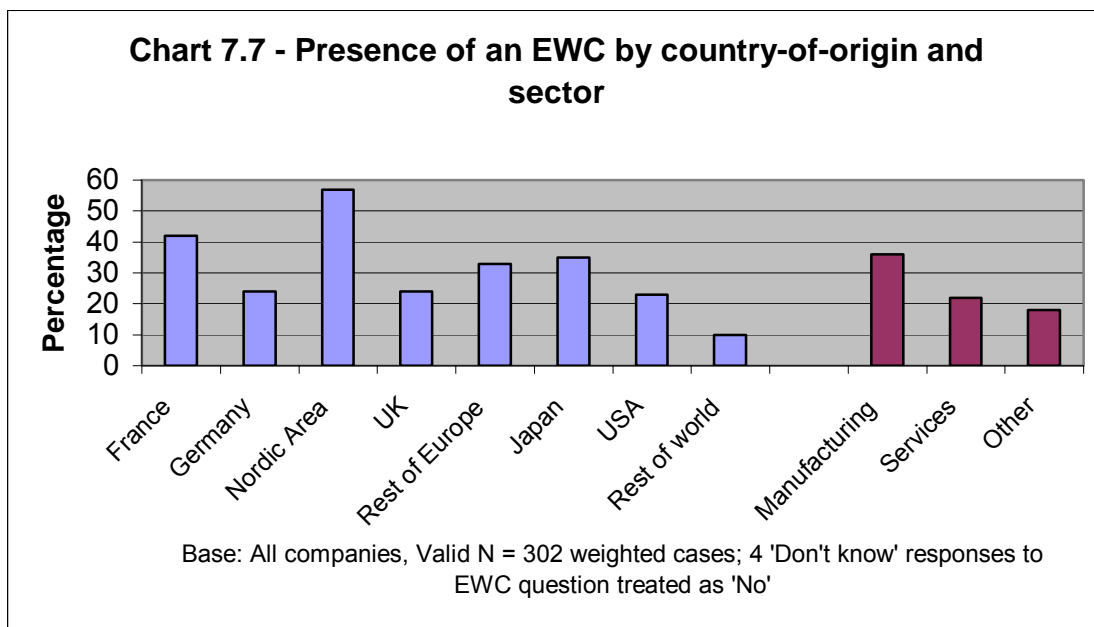
Consultative arrangements at the level of the UK operation, and any consultative arrangement, are both significantly more widespread in manufacturing and in other sectors than in services.

Changes

Implementation of the UK's ICE Regulations has prompted substantial recent change in arrangements for employee consultation. Thirty-seven per cent of cases (42% of those reporting any consultative arrangement) had made changes to arrangements over the previous 3 years. In nine out of every ten cases, such change involved the establishment of new arrangements at all (three-quarters of the relevant total) or some (one-quarter) sites; in seven out of ten cases it involved modifications to existing arrangements.

European-level arrangements

The MNC of which the UK operations are a part is reported to have a European Works Council (EWC) in 28% of cases. The UK respondent attends EWC meetings in half of these instances either regularly or occasionally. Amongst those respondents not attending meetings, the majority (two-thirds) are systematically informed of EWC developments at the time of meetings. Chart 7.7 shows considerable variation in the incidence of EWCs by country or origin, including within Europe where MNCs from the Nordic countries and France are more likely to have EWCs than those based in the UK and Germany. These intra-European differences are broadly consistent with those reported in more comprehensive analysis of the spread of EWCs (Kerckhofs and Pas, 2004). The chart also shows that EWCs are more widespread in manufacturing as compared with services and other sectors. MNCs with a EWC are significantly larger, in terms of worldwide employment, than those without one; they are also most common amongst MNCs which have had operations in the UK for 25 years or more, as compared with those more recently established. The presence of an international structure of employee representation is also clearly associated with an internationalised HR function. Multinationals with EWCs are more likely to have an international HR policy committee, to bring HR managers together regularly from different countries and to make use of international shared services.



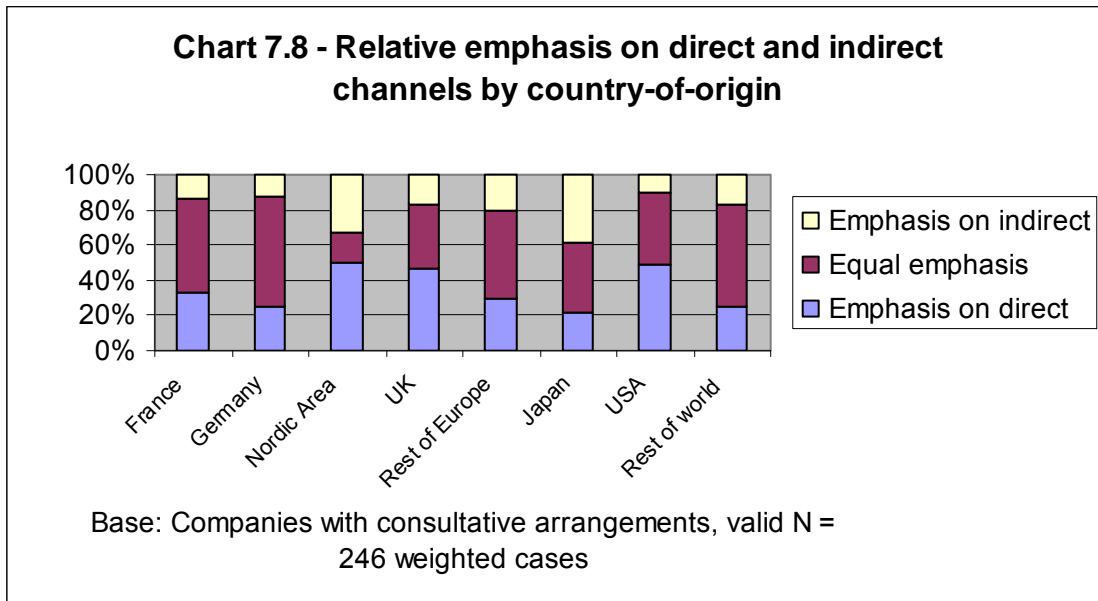
The presence of an EWC does not necessarily mean that there are consultative arrangements within the UK operation: there are no such structures in one in ten cases with an EWC. Amongst multi-site MNCs, there is complete vertical coverage of representative-based arrangements for employee information and consultation, at European level, UK-level and below UK level, in 22% of cases (six out of every ten cases with a EWC).

Managers in UK-based multinationals were additionally asked whether the company had experience of operating with mandatory consultation structures, such as works councils, in other countries. Setting aside five cases where no response was provided, 63% of these companies have such experience. There is a clear association with the existence of an EWC: 46% of MNCs with experience of mandatory consultation structures in other countries have an EWC, whereas amongst the companies with no such experience, none has an EWC.

Management policy towards employee information and consultation

Respondents in MNCs reporting consultative arrangements at and/or below the level of the UK operation were asked about the respective emphasis placed by management on the direct forms of employee communication and consultation considered in the previous chapter and the indirect or representative forms considered here. Forty-one per cent emphasise direct mechanisms, and 17% indirect mechanisms, whilst 42% place equivalent emphasis on both.

Differences according to country of origin are apparent from Chart 7.8. MNCs from the Nordic area tend to emphasise either the direct or the indirect channel, but are the least likely to place equivalent emphasis on both. US and UK MNCs display a strong tendency to emphasise direct channels, whilst Japanese MNCs are the most likely to emphasise indirect channels.



There are further differences according to sector, time established in the UK and diversification. MNCs in manufacturing are more likely to emphasise indirect, and less likely to emphasise direct, channels than those in either services or other sectors. MNCs whose operations in the UK were established in the past 5 years place

comparatively less emphasis on direct channels and more on indirect ones than do longer established MNCs. Those companies which are diversified into unrelated business are much more likely to emphasise direct channels than are other MNCs. Clear differences are also evident according to the presence of international HR structures and systems. Multinationals with an international HR information system and with international HR policy committees are more likely to emphasise direct channels or place equivalent emphasis on both (as compared with emphasising indirect channels). And moving from an emphasis on direct channels, through equivalent emphasis, to an emphasis on indirect, is associated with declining percentages of companies regularly bringing HR managers from different countries together and having an international HR information system.

Conclusion

In the context of debates around the 'representation gap' which is widely held to have opened up as a result of declining union representation over the past quarter century, two features of these findings are striking. The first is the incidence and spread of non-union representative structures. These exist for the LOG in over a third of the multinationals surveyed; one-half of these structures had been established in the 3 years before the survey was undertaken. The second is that representative-based arrangements for employee consultation are widespread, being found in four out of every five MNCs. A significant minority of these arrangements are of recent origin too. In both respects, the UK's recent ICE legislation appears to be having a discernible impact. Taken together, these developments might also signal that amongst a key group of employers consultation-based forms of employee representation are emerging as an alternative to traditional union-based arrangements focused on negotiation.

The findings reveal marked differences in patterns of employee representation and voice according to the country of origin of MNCs. In particular, there is a sharp contrast between US multinationals and those based in the Rest of the World, on the one hand, and German MNCs, on the other, over whether unions are recognised; the existence of non-union representative arrangements; managerial policy towards union recognition; whether there is a consultative arrangement at UK operation level; and the emphasis placed on direct or indirect channels of employee communication and consultation. Japanese multinationals are distinctive for a high incidence of non-union representative arrangements and in emphasising indirect channels of employee communication. UK MNCs are noticeable for being the most likely to have hybrid patterns of employee representation, perhaps indicating some pragmatic experimentation amongst indigenous companies as union strength has declined. Intra-European variation, an issue which has remained largely unexplored in other studies, is very apparent too. For example, French MNCs are less likely than their German counterparts to recognise trade unions, but more likely to have an EWC.

There are marked differences between manufacturing and services. These relate not only to union recognition and the extent of union influence in management decision-making. Non-union representative arrangements are also more common amongst manufacturing than service sector MNCs: the same holds for whether there are representative-based arrangements for employee consultation within the UK. An explanation for the latter differences might lie in a greater potential for union organising and influence in manufacturing, which in turn prompts management initiatives to establish other representative arrangements. Contrary to expectations,

the decline of union membership and influence over the past two decades is not reflected in a lower level of union recognition amongst those MNCs whose operations in the UK are the most recent. To the contrary, companies which have been operating in the UK for less than 5 years are the most likely to recognise unions and to emphasise indirect channels of employee communication. This requires further investigation: a possible explanation is that these are companies which have established operations in the UK through the recent acquisition of UK-based companies with a tradition or recognising and working with trade unions.

Third, in contrast to the areas of employment practice addressed in previous chapters, the strategic characteristics of companies have, with a few exceptions, little association with the policy and practice of either employee representation or employee consultation. The same conclusion holds for the impact of international HR structures and systems on patterns of employee representation and employee consultation in the UK. At international level, however, there is a clear link between the existence of EWCs and the presence of international HR structures and systems. This is consistent with studies which point to the role of EWCs in prompting more systematic international coordination by management (Marginson et al., 2004).

Chapter 8

Organisational Learning and Knowledge Diffusion

Introduction

This chapter considers the practices and structures used to aid organisational learning and knowledge diffusion across national borders. The creation of new knowledge through leveraging local capabilities and the rapid and efficient capture and diffusion of knowledge is often seen as one of the key challenges facing MNCs (Ghoshal and Bartlet, 1988; Gupta and Govindarajan, 2000). The survey sheds light on the practices companies are adopting to aid organisational learning and promote the effective flow of knowledge into and out of the MNC as well as within it. The chapter considers this issue from two perspectives:

- the extent to which firms are organised in a way that promotes organisational learning;
- the extent to which the UK operations have contributed to this by supplying practices to the rest of the firm.

In the first section we consider the organisational learning and knowledge transfer mechanisms and structures adopted by MNCs in relation to:

- the role of international networks (formal and informal);
- the use and profile of expatriates;
- the presence of multi-level learning structures.

In the second section we explore the role of the UK operations as a source of knowledge creation, in what is referred to as a process of 'reverse diffusion'. Here the data are analysed with respect to the following:

- the role of UK operations as a source of new practices in four substantive areas of HR, namely training and development, employee involvement and communication, pay and performance management, and employee consultation;
- the assignment of roles by HQ to UK operations in formulating HR policy;
- identification of global HR policies that were developed outside the country of origin.

Learning and Knowledge Diffusion through International Networks

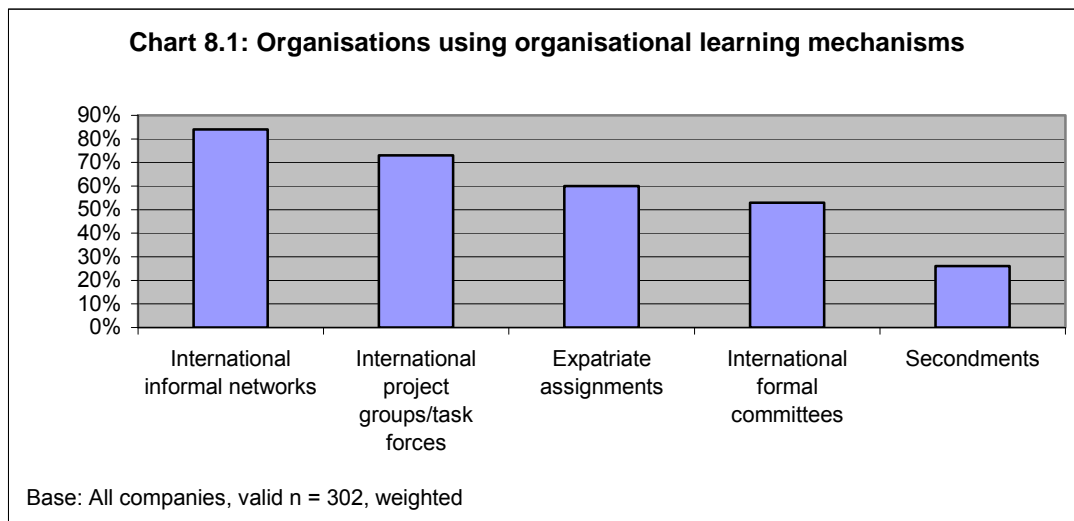
Formal and informal networks are widely recognised as a critical mechanism for creating and diffusing tacit or uncodified organisational knowledge (Gupta and Govindarajan, 2000). It is this type of knowledge that potentially provides organisations with key competitive resources as it is unique to the organisation or network within which it is embedded, and is difficult for others to copy or mimic. Further, a lot of innovation and knowledge renewal within organisations takes place within and is facilitated through the social context or interactions with others. Networks provide an important social space for innovation to occur. They also tend to involve

experts and span organisational boundaries, whether functional or national. Their social context, expertise base and international scope and diversity are all features that play a role in the interpretation, coding and further transmission of organisational knowledge (Gulati, 1999). In this section we consider the types of formal and informal international networks adopted by the management community within MNCs, the learning outcomes attributed to these managerial mechanisms and some of the wider organisational characteristics associated with their use.

The survey focused on five formal organisational learning mechanisms used by managers that are international in their scope:

- international projects groups or task forces, which are often used to address specific issues;
- international formal committees;
- secondments involving the placing of MNC employees in external organisations such as suppliers, customers, universities or private R&D companies;
- expatriate assignments.

The role of international informal networks was also explored.



The evidence shows (Chart 8.1) that the most common organisational learning mechanism adopted among the managerial community within MNCs is the informal network (used by 84% of companies). International project groups/task forces also play a prominent role (used by 73% of organisations) and to a lesser degree expatriate assignments (used by 60% of organisations) and international formal committees (53% of organisations). In contrast, secondments are only adopted by around a quarter of the organisations (26%). The majority (82%) of organisations use two or more organisational learning mechanisms, with 53% adopting between three and four of the five organisational learning mechanisms among their managerial community. Around 9% fail to use any of the mechanisms listed. MNCs requiring integration between the UK operations and other sites worldwide are significantly more likely to adopt multiple organisational learning mechanisms.

In overseas-owned MNCs, the use of international projects groups, expatriates and secondments is significantly more likely where the UK operations act as a source of R&D expertise for the worldwide company. This suggests these mechanisms operate as important mechanisms for capturing and diffusing R&D innovations within MNCs, and provide a route for the 'reverse diffusion' of knowledge or innovations from the UK to other locations within the MNC. International formal committees are significantly more likely to be used where the UK operations supply products or services worldwide or/and are supplied by overseas operations. Under these conditions it could be argued that the formal committee in particular is an important managerial mechanism for coordinating activity across national borders.

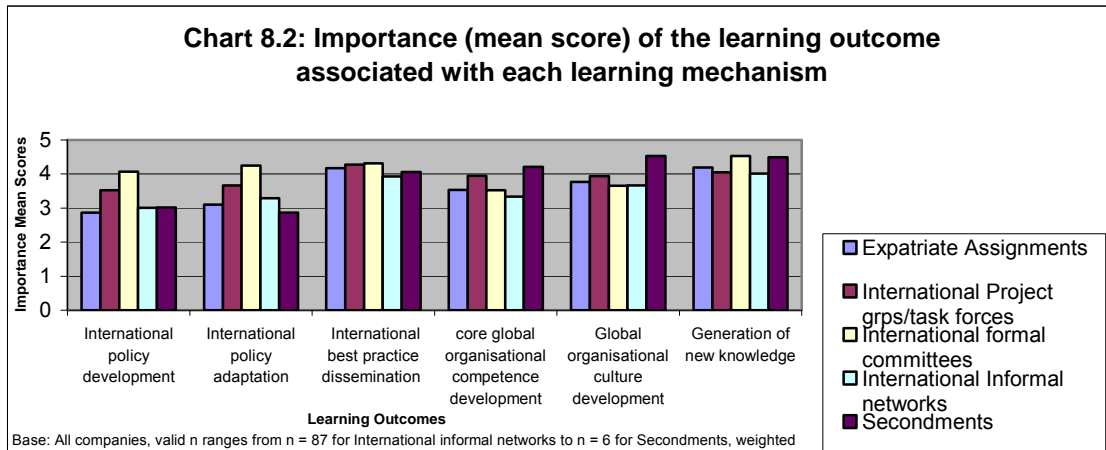
Comparisons across company ownership suggest national preferences exist. In particular the number of learning mechanisms adopted is significantly lower in Japanese companies compared to US MNCs or continental European MNCs. Among the continental European group, French companies are by far the greatest users of multiple learning mechanisms, accounting for the significant differences with Japanese companies. These findings suggest that integration and associated knowledge diffusion is addressed quite differently in Japanese companies.

Larger organisations are significantly more likely to adopt multiple learning mechanisms. MNCs with 5000 or more employees worldwide are more likely to use two or more learning mechanisms. A similar relationship was found among MNCs based on the number of employees in the UK. This may in part reflect the resources available to large organisations, but equally it may indicate the complexity and importance of capturing and diffusing organisational knowledge in large MNCs and large UK subsidiaries.

From the data it is possible to identify the most important learning outcome associated with each of the managerial learning mechanisms. The survey explores learning outcomes in terms of the following:

- developing international policy;
- adapting international policy;
- disseminating good practice internationally;
- developing core global organisational competencies;
- developing a global organisational culture;
- generating new knowledge or know-how.

Overall the most important learning outcome is the generation of new knowledge (mean importance score of 4.25, 1 indicating not at all important and 5 very important), followed by the dissemination of best practice (4.15). However, all the learning outcomes are seen as important, with each receiving an average score greater than 3. Chart 8.2 Illustrates the average importance of learning outcomes associated with each learning mechanism. From this it appears that expatriates have a priority role to play in the generation of new knowledge and dissemination of best practice. International project groups/task forces appear to play an equally critical role in the dissemination of best practice, development of new knowledge, core organisational competencies and global culture. Formal international committees take the lead on new knowledge development, policy adaptation and policy development. Interestingly, international networks do not lead in any single area which may indicate the difficulty in pinning down the outcomes associated with such informal relations and connections. The data for secondments show that only six organisations identify these as their most important learning mechanism.



In summary, formal and informal learning mechanisms play an important role in the creation of new organisational knowledge and core competencies, and in the subsequent diffusion of knowledge across national borders. International informal networks, international task forces or project groups, and expatriates are among the more common managerial organisational learning mechanisms. There are some clear distinctions between organisations in terms of national preferences for the types of learning mechanisms adopted. In particular, Japanese companies adopt fewer and perhaps alternative organisational mechanisms; the extent to which this specific finding is tied into organisational structures for integration and product strategies requires further investigation. More generally, organisational learning mechanisms are identified as a key structural dimension in organisations where integration is an important strategic priority. The significant link between certain types of organisational learning mechanisms in R&D-intensive UK operations reinforces their role as an important mechanism for knowledge diffusion and suggests they play an important role in diffusing knowledge out of the subsidiary, i.e. reverse diffusion, an issue that is discussed in more detail below. Finally, different learning outcomes appear to be linked to different organisational learning mechanisms. Related to this, the data reveal that despite the widespread use of international informal networks, their specific learning contribution is more difficult for organisations to identify.

Learning and knowledge diffusion through expatriates

Expatriate managers have traditionally been identified as a critical integrating mechanism for MNCs, aiding the control and coordination of operations abroad. Assignments have generally been viewed as having three primary functions: a 'fix it' function involving technical assignments whereby the skills and knowledge of the expatriate are used to address a specific issue or 'fix' a problem; a developmental function, where 'high potentials' are given opportunities to develop their global competencies in preparation for senior management positions; and a control function, where expatriates hold positions and responsibilities aimed at controlling the activities of the subsidiary, and/or spreading corporate global culture. In each of these functions the expatriate manager is an important player in the creation and diffusion of tacit organisational knowledge (Stroh and Caligiuri, 1998), a role which is supported by the findings outlined above.

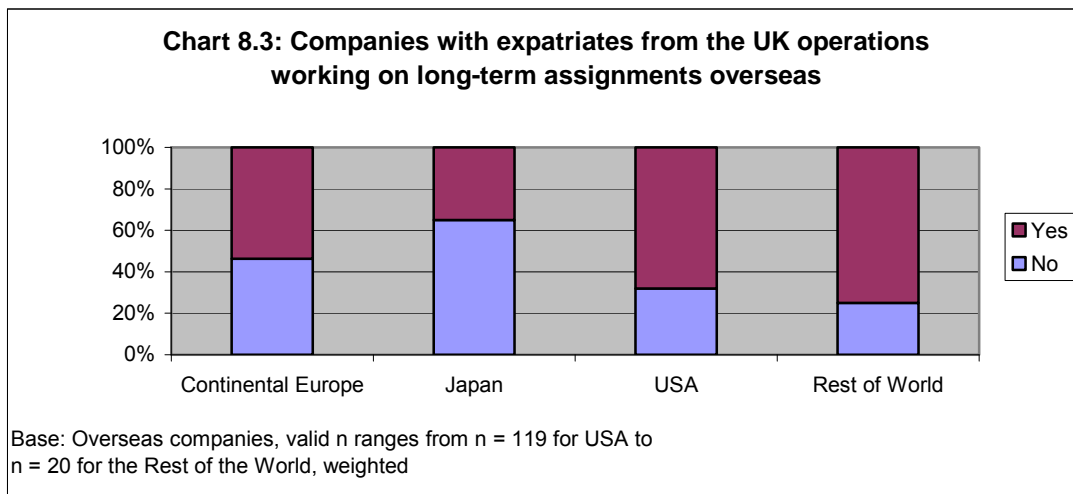
The value of the expatriate assignment has come under close scrutiny in recent years. Competitive pressures in MNCs, growth of emerging economies such as India and changes in the expatriate population have raised questions regarding the role of the expatriate manager and assignments (Harris, Brewster and Sparrow, 2001; Perkins, 2006). Cost reduction is a critical concern for MNCs, and the high costs associated with sustaining an expatriate cadre have led to moves to reduce the number of expatriates and to increase the number of short-term assignments. The rapid expansion of internationalisation through mergers and acquisitions has also meant that international HR expertise or key organisational competences are not always centralised to the parent. Instead they may reside at various 'hubs' or 'nodes' within the multinational's network of operations. As a consequence the number of third-country nationals has risen, and this group forms a significant part of the expatriate community. The significance of emerging economies also has an impact. For example, the rapid expansion of the Indian economy, coupled with the investment in infrastructure and high educational achievement, has given rise to strong indigenous skills. As a consequence expatriates are often working alongside highly educated and professional local employees. These changes in the context raise new issues for multinationals in determining the value added of using expatriate managers over local managers, and in determining where best to locate people given their competences and the objectives of the organisation. However, the expatriate remains an important conduit for knowledge transfer, and these contextual changes offer new opportunities for the MNC to use expatriates as 'boundary spanners' (Kostova and Roth, 2003), facilitating reverse or horizontal knowledge diffusion and engaging in the renewal of organisational knowledge in collaboration with local experts.

In the survey we asked UK and overseas MNCs about the presence and profile of expatriates in the UK operations. Turning first to the overseas companies, we see that 64% of companies have parent- or third-country nationals working on long-term assignments (i.e. 12 months or more) in the UK operations. In contrast, 36% have no expatriates posted to the UK operations. Of those with expatriates, the number of home-country nationals posted to the UK ranges from 1 to 80 and the number of third-country nationals ranges from 1 to 70. However, these figures are affected by the use of large numbers of expatriates in a few organisations. The median figures give a clearer picture of the profile of the expatriate population. The median number of third-country nationals is 3 and the median number of home-country nationals is also 3. This balance of home and third-country nationals supports the findings of other studies suggesting that the expatriate population is no longer dominated by parent-country nationals. These median figures also suggest that, while expatriates are used in over half of the overseas companies, their numbers are relatively small. This is likely to reflect the costs associated with the selection, training, and reward of expatriate managers, the problems associated with repatriation and concerns over demonstrating the value of using expatriates. However, where they are used the balance between parent- and third-country nationals suggests their role may be shifting from one primarily concerned with control to one that considers alternative ways of tapping into local talent and knowledge.

When the median number of parent- or third-country nationals is compared across the different overseas companies according to their country of origin a distinctive pattern emerges. Specifically, Japanese companies are more likely to rely on parent-country than third-country nationals: the median number of parent-country nationals is 8 compared to only 2 for third-country nationals. In contrast, US, European and Rest of

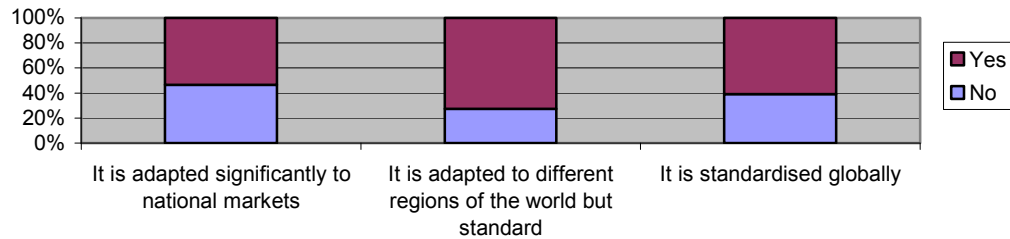
the World MNCs all have the same median number of parent and third-country nationals i.e. between 2 and 3. These figures indicate the importance of home-country expatriates within Japanese MNCs and suggest their role as a mechanism for the parent to exert influence over its overseas subsidiaries cannot be discounted.

Overseas MNCs were also asked about the number of expatriate managers from the UK operations working on long-term assignment outside the UK. In all, 60% of overseas companies have expatriates from the UK operations working overseas. The median number of expatriates in the parent headquarters is 2 while the median number working in other parts of the worldwide company is 3. Again there are country variations. Chart 8.3 illustrates the limited extent to which Japanese MNCs send expatriates from the UK operations on long-term assignment overseas, with only 33% having such assignments. This contrasts with the 68% of US companies and 75% of Rest of the World MNCs that send expatriate managers from the UK operations overseas.



Examination of the extent to which companies have a product/service that is adapted to the local market, adapted to the region, or globally standardised is significantly correlated with whether or not expatriates from the UK operations are working overseas. This tends to be more common among companies requiring greater integration because of the globally standard nature of the product/service (Chart 8.4). In contrast, the posting of parent- or third-country nationals to the UK operations does not differ among companies with different product strategies. The companies adopting globally or regionally standardised products are more likely to be US MNCs.

Chart 8.4. Overseas companies sending expatriates from the UK operations on long-term assignment overseas by product strategy



Base: Overseas companies, valid n = 70 for adapted significantly to national markets, valid n = 132 adapted to different regions of the world but standard, valid n = 82 standardised globally, weighted

Among the UK MNCs, the data indicate a strong tradition of sending expatriates to their overseas operations: 86% of UK companies have expatriates working in overseas operations, and they send a median of 6 expatriates on long-term assignments overseas. Sixty-one per cent of UK MNCs have expatriates from the operating companies outside the UK working on long-term assignments in the UK. Of those posted to the UK the median figures show that 12 employees are posted to a headquarters function and 5 are posted to the UK operations. These data suggest that expatriates in UK MNCs are being socialised into the corporate way of doing things, building up their personal networks with parent-country employees and becoming familiar with the policies, practices and norms of the parent.

The size of the UK operation is correlated with the use of expatriates, although the pattern of the association is different for home and overseas companies. Among overseas MNCs, the larger the MNC in terms of its worldwide employment figures, the more likely it is to have expatriates posted to the UK. A similar pattern is also evident in terms of UK employment figures. The greater use of expatriates in larger organisations may reflect the fact that they are more likely to have the resources required for expatriate assignments. Examination of the findings for UK MNCs shows no significant differences according to either worldwide employment or UK employment size in whether staff from the overseas operations are posted to the UK. However, the UK MNCs with larger UK workforces are significantly more likely to send expatriates from the UK to their overseas operations. This significant association is not evident for UK MNCs with larger worldwide employment. Therefore, in the case of home-owned companies one of the critical factors in whether expatriates are sent overseas may be the size of the parent operations as this in turn may be indicative of the resources available to support the coordination of the expatriation process.

Overall, the profile of expatriates within the overseas and UK MNCs suggests this employee group remains an important international resource for more than half of the companies, particularly in larger organisations and those requiring greater strategic integration. There is also a strong preference by Japanese MNCs to post parent-country nationals in their UK operations and not to send local expatriate managers overseas. Among non-Japanese MNCs there is a balance between the number of parent- and third-country nationals posted to the UK operations. This suggests

expatriate assignments may be providing MNCs with another route through which to tap into local resources for global purposes. This conclusion finds some support from the analysis presented in the previous section illustrating the importance of expatriate assignments as a mechanism of organisational learning among the UK management community of the MNCs. One final point relates to the analysis presented in Chapter 5 in which the role of long-term assignments was identified as an important mechanism for the development of high-potential and key group employees within the UK operations. This provides further evidence of the continuing significance of international assignments in MNCs.

Multi-Level Learning

The survey is well-placed to consider the bundles of practices and structures organisations adopt in a range of areas. With respect to organisational learning it is possible to consider whether MNCs are adopting learning processes in isolation or whether these are part of a wider organisational approach that spans horizontal and vertical boundaries. In the previous section the role of managerial organisational learning mechanisms was considered. Chapter 2 explores coordination structures and networks within the HR function, while Chapter 6 examines knowledge diffusion and learning processes through employee involvement processes. Here the analysis considers the extent to which there is an accumulation of learning processes and structures within organisations.

The analysis shows that MNCs using worldwide senior management committees to address HR issues are also significantly more likely to use multiple managerial organisational learning mechanisms. MNCs that bring together the HR community in a systematic way are significantly more likely to use managerial learning mechanisms than those that do not bring their HR managers together.

Examining the inter-relationship between employee involvement learning processes and managerial learning processes, the results illustrate a cumulative effect. For example, MNCs that adopt *employee-level* international project teams/task forces either in the UK or worldwide are significantly more likely to also use international *managerial* learning mechanisms.

As analysis throughout this report has illustrated, the use of employee, function or managerial learning mechanisms is more prevalent in MNCs requiring strategic integration. In addition, there are country preferences. For example, international employee learning mechanisms are used extensively across all organisations within the UK; however, on a worldwide basis they are adopted less by UK MNCs compared with overseas MNCs. Formal HR committee structures are significantly less likely in Japanese companies, as is the use of multiple managerial learning mechanisms.

In sum, whilst the results suggest learning structures, where they exist, are likely to operate at multiple levels within an organisation, there is clear evidence of national differences in the extent to which they are used. The business strategy of the MNC, in terms of the demands for integration both globally and between the UK operations and other parts of the worldwide company, is an important correlate of multi-level organisational learning processes.

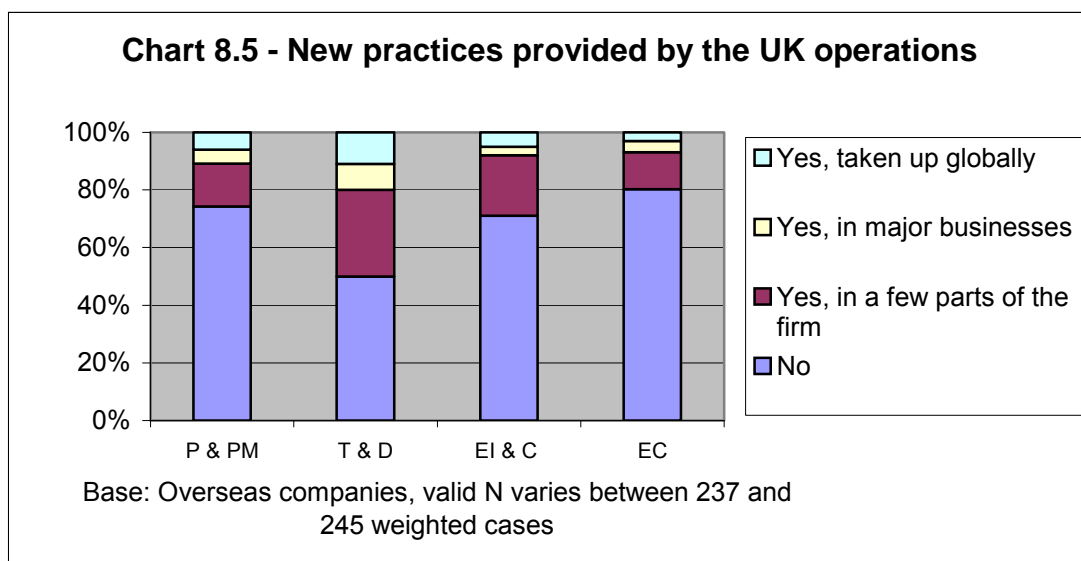
Reverse Diffusion

One aspect of MNCs' adeptness at organisational learning is the extent to which employment practices that originate in the overseas subsidiaries are diffused across

the firm. This phenomenon, known as ‘reverse diffusion’ (Edwards and Ferner, 2004), can be assessed through our data in a number of ways.

The first of these stems from a direct question to overseas MNCs asking whether the UK operations have provided new practices to the rest of the company in four specific areas. Training and development is by far the most common area, with exactly half of the respondents identifying this. Nearly three out of ten firms (29%) indicated that reverse diffusion has occurred in the area of employee involvement and communication, one in four (25%) did so in relation to pay and performance management and just under one in five (19%) in the area of employee consultation. The greater tendency for RD in the area of training and development arguably reflects the way in which practices in this area are less dependent on national institutions or regulations and are therefore easier to transfer across borders. Overall, RD had occurred in at least one of the four areas in just over six out of ten firms (61%).

The data are revealing of the extent to which practices originating in the UK are spread to the rest of the firm. In the main, where the British operations are suppliers of new practices, these are diffused to ‘a few parts of the firm’ rather than to ‘major businesses’ or ‘taken up globally’. One interpretation of this is that the process may not be coordinated by HQ but rather takes place through bilateral arrangements between sites. Another interpretation is that the HQ coordinates the process but chooses those sites it wishes to be involved.

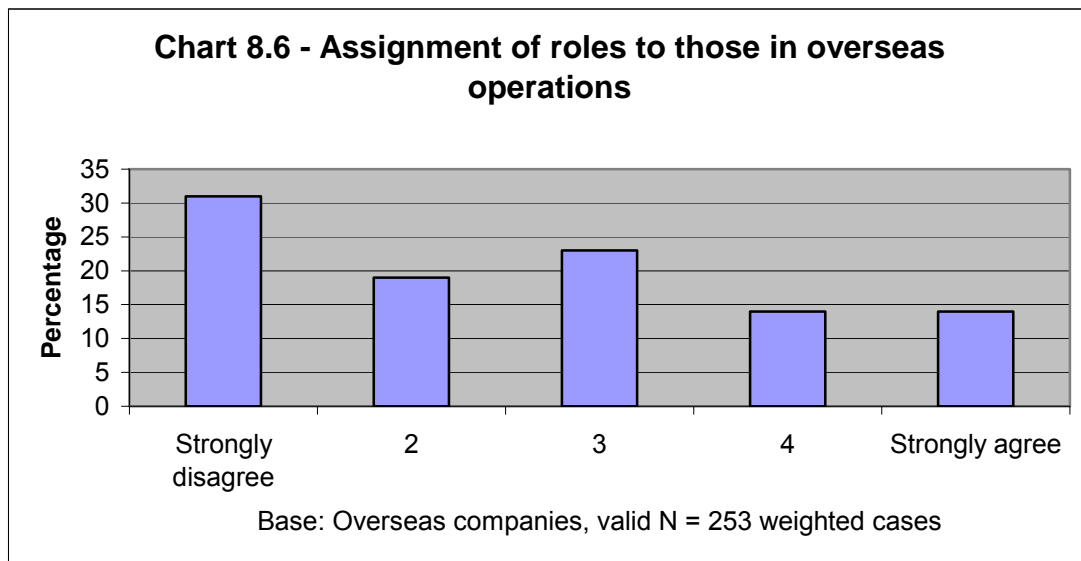


The proportion indicating that RD has occurred is higher in overseas (62%) than in UK MNCs (40%). One explanation, which is supported by the data above, is that much RD is a bilateral exchange between sites and, therefore, the respondent at HQ in British MNCs may not be aware of practices being transferred between overseas subsidiaries.

Five of the characteristics of MNCs that we examined in Chapters 1 and 2 are associated with RD in any of the four areas. First, there is variation between MNCs

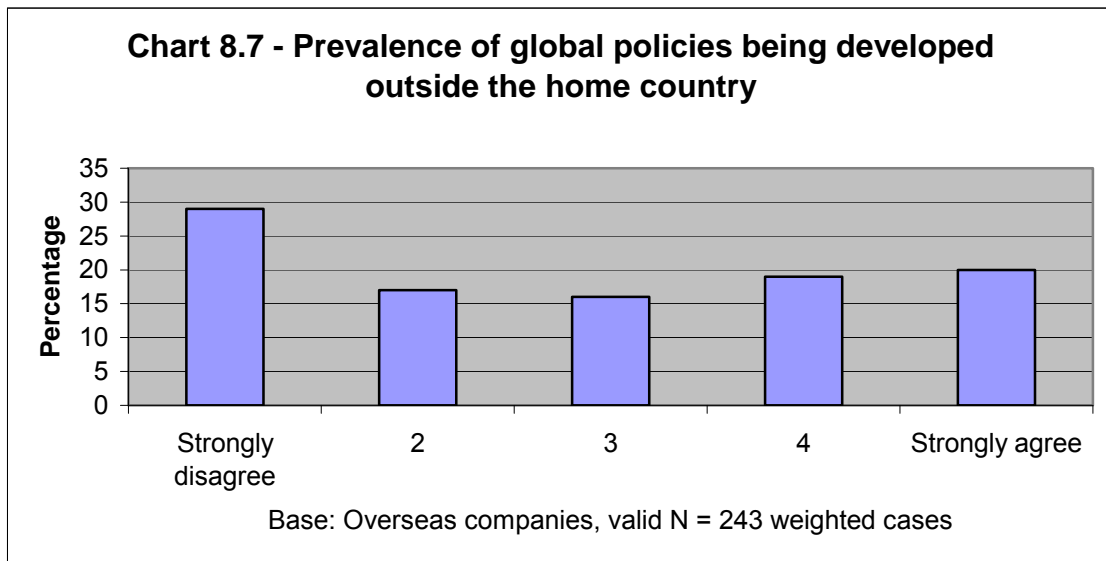
according to their national or regional origins, with Japanese firms significantly less likely than the other groups to engage in RD. Second, larger UK subsidiaries are more likely to be the source of practices diffused elsewhere than are smaller ones. Third, where managers are brought together systematically for regular meetings either regionally or globally then RD is more likely to occur than where this doesn't happen. Fourth, RD is most likely to occur where the UK operations are monitored on a wide range of HR issues. Fifth, and perhaps surprisingly, highly diversified firms are more likely than those producing a single product or related products to engage in RD.

The second measure of RD stemmed from a question concerning whether the HQ assigns roles for formulating policy to HR managers in overseas operations (Chart 8.6). This provides an indication of the extent to which senior management make a deliberate attempt to utilise expertise generated outside the country of origin. Just over a quarter (27%) of respondents gave a rating of 4 or 5 on the scale, corresponding to agreeing or strongly agreeing with this statement.



As was the case for the variation between firms for the first measure of RD, there are also five sources of variation between firms in the extent to which they assign roles in formulating policies to HR managers outside the country of origin, with some of the same factors featuring for both issues. The first of these is national or regional origins, with Japanese firms less likely and American firms more likely to assign roles in this way. The remaining four sources of variation all relate to the organisation of the HR function: those firms that assign roles to overseas subsidiaries tend to monitor their UK operations on a wide range of issues and to have an HR information system, an international HR policy-making body and regular meetings of HR managers across sites.

The third measure of RD stemmed from whether the respondent was able to point to global HR policies that had been based on those developed outside the country of origin (Chart 8.7). Just over a third selected points 4 or 5 on the scale, indicating that they agree or strongly agree with this statement.



The factors that can explain the pattern of variation between firms for this measure are almost identical to that for the second measure of RD. In relation to the national or regional origins, fewer Japanese firms can point to global HR policies based on those developed outside the country of origin, with more Rest of the World and American firms doing so. The other five factors that explain variation all relate to the organisation of the HR function, with four of these featuring in the same way as for the second measure: there is a positive and significant relationship between respondents indicating that global policies had been based on those outside the country of origin and the firms having an HR information system, an international HR policy-making body, regular meetings of HR managers across sites, and monitoring their UK operations on a wide range of issues. In addition, there is a further aspect of the HR function that is associated with global policies being formed in this way, namely the existence of international shared services in HR.

A final aspect of our analysis of this issue is to explore the associations between the three measures of reverse diffusion. This shows that the first measure (the variable that was constructed through the four substantive areas) is significantly associated with the second (the corporate HR function assigning roles to HR managers in the overseas operations) though it is not significantly associated with it being possible to point to global HR policies that are based on those outside the country of origin, the third measure. There is a strong association between the corporate HR function assigning roles to those outside the country of origin and it being possible to point to global HR policies that are based on those outside the country of origin.

Conclusions

This chapter describes the organisational learning and knowledge diffusion mechanisms that are live in MNCs today. One of the key messages that can be drawn from the survey is that learning and knowledge diffusion is an area of activity that the majority of organisations are addressing in some form. The difficulties associated with capturing and moving knowledge, particularly tacit knowledge or know-how, across

organisational boundaries has often meant that this is an area in which theory and prescription outstrip practice. This survey evidence sheds light on the extent to which learning and knowledge diffusion practices are prevalent and some of the factors underpinning the divergence in practice between firms. We highlight three of these factors.

- One of the key findings with respect to organisational learning is the extent to which international network structures play a role in promoting learning objectives. Further, there is evidence that in some MNCs learning activity pervades multiple levels and is an integral part of how the organisation structures its HR and work processes internationally.
- A second key finding is the extent to which expatriate assignments remain prevalent within MNCs, suggesting that the expatriate is still an influential parent-company resource. This is particularly the case in the overseas operations of Japanese companies. However, the widespread use of third-country nationals may be indicative of the additional ways in which local employees are becoming involved within wider organisational networks. These results, taken alongside the evidence on the role of expatriate assignments in organisational learning among the UK management community, add support to the proposition that local managers are an important knowledge resource within MNCs.
- Third, the variation between firms in the incidence of reverse diffusion can be explained with reference to basic characteristics such as nationality, and the organisation of the HR function internationally.

There are clear messages emerging in relation to the factors explaining variation in organisational learning and knowledge diffusion. Three factors show a particularly consistent influence, namely national origin, strategic context and HR structures.

First, there are clear national preferences in the types of organisational learning mechanisms adopted and the extent of reverse diffusion. In particular, Japanese MNCs stand out as distinctive in that they tend to adopt different organisational learning mechanisms compared with US, UK or European MNCs. Linked to this, Japanese companies are less likely to engage in RD. These national variations show that the form that organisational learning and diffusion take is strongly shaped by the national context of the parent firm.

Second, organisational learning mechanisms are more likely to be in evidence in MNCs with a particular strategic or business orientation. For example, overseas MNCs that are more R&D-intensive or require greater strategic integration are more likely to use organisational learning mechanisms and to use these at multiple levels. Given that R&D outputs need to be disseminated to other parts of the organisation, this finding suggests that the organisational learning mechanisms are not only used as a channel for the flow of knowledge into the UK operations, but also for the outflow of knowledge.

Third, HR structures are strongly associated with learning and knowledge diffusion. This is important in that it suggests that the HR function plays an important role in building the social capital of the MNC. Social capital refers to the relationships – networks or communities – within an organisation that provide the space and opportunities for tacit knowledge to be revealed, used and adapted for competitive

purposes. In MNCs, international forums, such as international coordinating committees, provide an opportunity to pursue integration objectives through, for example, developing international policy or negotiating buy-in and implementation of policy (Tregaskis, Glover and Ferner, 2005). Moreover, HR structures are also strongly associated with the incidence of RD, further reinforcing the view that the nature of the international HR function shapes the firm's ability to transfer knowledge across borders.

Chapter 9

Conclusions and Implications

Introduction

From the mass of detailed findings presented in this report, some important patterns emerge. In this concluding chapter, we attempt to see the wood for the trees.

First, we highlight the main findings by picking out the key variables, such as nationality, sector and organisational structure of the business and of the HR function, that influence the conduct of employment relations in MNCs. For each, we summarise the areas on which they have an impact and, as important, the areas where they might be expected to be influential but are not.

Second, we briefly reflect on the usefulness of identifying the 'Key Group' amongst the workforce within firms, and on the patterns that emerge for this group.

We conclude with some observations on the broader implications of our findings for the nature of employment policy and practice in MNCs.

The Key Drivers of Employment Relations in MNCs in the UK

We set out at the beginning of the report a *prima facie* list of factors that can be expected to have an impact on HR/ER. Some – such as nationality of ownership, and international HR structures – have emerged as recurring influences across different areas of HR/ER; others are influential over a more restricted range of issues.

Nationality of ownership

One of the key questions in international business is how far, in a world of constant mutual borrowing and influences, companies are converging on a common model of HR/ER policy. Do they retain a trace of their country of origin, or do they increasingly resemble each other? Given the numerical dominance of US-based MNCs, is there any convergence towards an 'American' model?

Throughout the report, we have noted the persistent influence of nationality. There are clear national differences in all four areas of HR/ER: pay & performance; learning & development; employee involvement; and employee representation. Nationality is related not only to the *substance* of HR/ER policy, but also to the *process*, in particular the means whereby the wider MNC intervenes in HR policy in the UK operations. Most notably this is true of the organisational structures that govern the international management of human resources, and of the degree of control that higher organisational levels exert over UK HR/ER policy.

This pattern confirms that national ways of doing things continue to inform the behaviour of multinationals in the world economy. The predictions of many commentators that we are entering a 'borderless world' in which multinationals somehow 'float free' of the constraints of the national economic contexts in which they originate have not been borne out.

US firms stand out for the prevalence of international HR structures, for the relatively low discretion of their UK operations over HR/ER policy, and for their disinclination to recognise unions or to involve them widely in decision-making where they exist. Somewhat surprisingly, perhaps, they are also more likely than others to engage in 'reverse diffusion', and to assign global roles to HR managers in overseas operations. When it comes to their use of specific employment relations policies, there is not much difference between US companies and other MNCs across wide areas of policy. However, there are still indications of US firms' distinctiveness: for example, in the use of share ownership and share option schemes, international task forces and certain organisational learning and management development mechanisms.

As for **UK MNCs**, we stressed in the Introduction that direct comparison with overseas MNCs in the UK is not always possible, because we have a headquarters rather than subsidiary perspective. None the less, many of the issues addressed can be looked at across both groups of MNCs. A picture emerges of UK MNCs as firms that do not fit neatly into some 'Anglo-American' model: the typical UK MNC is not a 'mini-me' of the US firm. Rather, it appears to be pragmatic and experimental in its approach, for example in its attitude to union recognition and in its mixed pattern of recognition. The one area in which UK MNCs are more like US firms than other MNCs is in their use of share ownership schemes, a reflection possibly of the significance of stock markets and of diffuse share ownership in the UK and US parent economies.

Japanese MNCs, unlike US firms in particular, do not exert tight higher-level control over international HR/ER, and they are less likely to exhibit formal structures of international HR management. Informally, however, the presence of HQ is asserted through a strong Japanese presence in the UK management team. Japanese MNCs are less likely to use policies associated with individualised pay and performance, formal management development or organisational learning. Nor are they likely to see UK operations as a source of learning opportunities for the rest of the firm, or to bring non-Japanese HR managers into a global policy-making process. They are also the most likely to have representative structures which are non-union based. They are therefore distinctive, and in some ways provide a polar opposite to US companies.

German firms very much fit the expectations of their business system, and of much (but not all) previous research. They are less likely to have variable pay for LOG, or to have share or profit-sharing schemes. They tend to be higher investors in training, are the most likely to recognise unions throughout their UK operations, are the most likely to favour recognition, and the most likely to engage with unions on a range of issues; surprisingly, though, they are less likely than others to have established EWCs.

French companies share certain traits with US MNCs: they are more likely to have international HR committees and to bring managers together on a global basis, and they monitor more HR items; they are prominent in their use of organisational learning mechanisms; and they are among the least likely to recognise unions. But in other respects the French are more 'European': they are less likely than US firms to have a global HR philosophy, nor they do exhibit particularly tight higher-level control over employment relations policies.

Nordic MNCs exhibit their own distinctive pattern. They are the least likely to have formalised their international HR structures, being less likely than average to have international HR information systems (HRIS) or international HR committees, or to bring managers together on a global basis. They provide relatively large amounts of

information on the company to their employees, and are among the most likely to have EWCs. Somewhat surprisingly, they have relatively low levels of engagement with the unions, though this could reflect the fact that they allow high levels of discretion on recognition and union scope to their UK operations.

These findings emphasise, in short, the need for caution in lumping 'Europe' together as a single homogeneous grouping, as has so often been the case in past research, and to be sensitive to differences between these firms reflecting their differing national business traditions.

Finally, the **Rest of the World** category merits some comment. Although a catch-all category, this group is dominated by companies from three predominantly English-speaking, deregulated market economies: Canada, Australia and South Africa. Though the 'Anglo-American' model is far from homogeneous (either between the UK and the US, or within the US group – see below), there are nonetheless similarities here, particularly with the US pattern. The Rest of the World companies are on the whole less likely to recognise unions, to have either union or non-union representation, or to have EWCs. They are also more likely to have upward appraisal.

The findings are notable, however, not only for the pattern of differences, but for the similarities between MNCs from different countries. For many substantive areas, there are not the significant national differences between MNCs that might be expected. Nationality has little impact, for example, on pay in relation to the median, which might have been expected to be the case if MNCs of different national origins tended towards either more 'high road' (high skill, high pay) or more 'low road' (low skill, low pay) labour strategies. The absence of differences between companies from different countries, however, is not necessarily straightforward to interpret. It could mean that any original differences, reflecting different business traditions, have been eroded through diffusion, for example through the convergence of European and other MNCs on a dominant American model of international HRM. Or it may be that American companies were never really that distinctive, and that too much attention has been paid to the pioneering practices of a small number of large, high-profile companies. Further illumination of this question would, though, depend on gathering data at different points in time to show the temporal evolution of the pattern of similarity and difference. Finally, it may be that differences lie not so much in practices as in the way they are implemented – in the process rather than the substance. Our results certainly provide support for the last of these possibilities, most notably with respect to national variations in the UK operations' degree of discretion over HR policy.

Despite the importance of national difference, an important point to make is that national groups of companies are not themselves homogeneous. For example, while US MNCs on the whole offer less discretion to UK operations, a considerable number of US MNCs permit high local autonomy. A task for future analysis is to explore further these variations within country groupings. We can begin to construct typical 'sub-models' of HR/ER in these groupings. For example, the US firms appear to fall fairly easily into two categories, one with relatively low discretion and the other with relatively high discretion for UK operations. Low discretion US firms are more likely to have a whole range of distinguishing characteristics in terms of their substantive practices. Relative to the low discretion firms, for instance, they emphasise quantitative managerial performance targets and targets based on corporate values, are more likely to use 360-degree feedback systems, and to have employee share ownership and share options. They are more likely to use formal global systems of

succession planning and high-potential development, long-term international assignments both into and out of the UK, and a range of mechanisms for cross-national organisational learning. And they make more use of cross-national project teams or task forces, and provide more information to the LOG about the worldwide company. These differences are not explained by size, degree of standardisation of the product, or sector. However, they do seem linked to the nature of international structural characteristics – the existence of international business divisions or global business functions, for example (see below).

Sector, size, vintage, organisational structure, and international integration

Sector, through its association with the nature of the workforce, the skills required, the organisation of work, union traditions, and so on, seems likely to be influential in employment relations practices. Although its influence is perhaps less pervasive than national origin, it does indeed have a notable impact, especially in the area of employee representation. Service sector firms are more likely to have performance appraisal and variable pay, and to emphasise individual performance. Manufacturing operations make more use of teams, problem-solving groups and cross-unit project teams or task forces; they provide more information about the company to their workforce. Differences between manufacturing and services are marked in the area of union recognition, the influence of unions on management decision-making, in non-union representative arrangements and the existence of indirect channels of employee consultation, and in the prevalence of EWCs. All are more likely in manufacturing than in services. This pattern was attributed in chapter 7 to the greater scope for union organising and impact in manufacturing. Further exploration of the sector variable, particularly using finer-grained sectoral categories, seems likely to throw up further associations of interest.

Both UK and worldwide employment **size** are important influences on particular issues, but perhaps less influential overall than we might have expected. Worldwide size is related to the existence of international HR structures, to a more 'ethnocentric' HR philosophy, and to EWCs. A larger UK workforce is linked to the prevalence of share schemes, the 'reverse diffusion' of practices, a more varied pattern of union recognition, and a higher level of engagement with unions. Both worldwide and UK size are associated with the monitoring of HR, the presence of expatriates in the UK, and the use of organisational learning mechanisms. However, with these and a few other exceptions, size is rarely related to particular HR/ER practices. There is some tendency for larger UK operations to have less discretion in pay and performance, though not in other areas of employment relations. This mixed picture on discretion is perhaps as one would expect: larger UK subsidiaries may attract greater scrutiny of higher organisational levels; but at the same time, they may have greater resources with which to withstand higher-level influence. Employment size, in short, is a dog that barks only sporadically at best. This conclusion is all the more striking given the range of MNCs embraced in the survey, from the medium-sized with worldwide employment of less than 1,000, to the large and the very large.

Previous studies have suggested that the length of time that operations have been established in the UK – **vintage** – is likely to be associated with the management of employment relations. However, we have found only very limited evidence of a 'vintage effect', and even that is hard to interpret. Clear enough is the association between vintage and the existence of a EWC. But other links are more enigmatic. For

example, 'younger' operations are more likely to have a UK representative on an international HR committee, whereas one might expect this more likely to occur once the UK operations were more established. Similarly, contrary to expectations, we found that young sites are more likely to have union recognition and to have union and non-union representation. One explanation for the lack of impact of vintage is that it may work in opposing ways depending, for example, on the mode of entry. Greenfield sites are likely to experience considerable parental influence in their early years; conversely, in UK operations dominated by acquired 'brownfield' sites, with their own local management heritage, parent companies may take some time to establish formal systems of control and influence. They may also have to make concessions to local management to win their commitment (hence, possibly, the greater likelihood of young subsidiaries' having a UK representative on an international HR body). Further exploration of this issue will require additional analysis of our data on mergers and acquisitions, and changes in ownership.

International business structure has a considerable impact. The presence of intermediary international structures, such as region, international business division and global business function, particularly in matrix combinations, is significantly related to a variety of employment practices, notably in organisational learning and development and employee involvement. MNCs with matrix structures are more likely to have formalised international HR structures, especially HR committees, to bring together HR managers internationally and to establish shared service centres; they also monitor data from the UK operations on a wider range of HR issues. Most notably, UK operations that are part of MNCs with international matrix structures have lower discretion. This is true for UK policies in pay and performance, employee involvement, and learning and development. It is also the case for employee consultation, but not employee representation, policy.

Integration into the worldwide company has a number of dimensions, all of which we found to have some impact on employment practices in the UK operations. First, there are international supply chain linkages, that is the extent to which the UK operations either supplies to or receives inputs from other parts of the international firm. Firms with such linkages are more likely to have teams and problem-solving groups, global high potential programmes and formal mechanisms such as committees to transmit international organisational learning. Second, integration may be measured by the extent to which products and services are globally standardised, or adapted to local or regional markets. The more standardised they are, the more likely it is that UK operations will be represented on international HR committees and will both send and receive expatriates. The more they are geared to national markets, the more discretion the UK is likely to have on pay and performance. Third, there is the degree to which the company's activities are diversified over a range of unrelated products or services, or concentrated on related products or services, or focused on one particular activity. The degree of 'diversification' is related to the presence of teams and task forces – possibly in order to share knowledge across unrelated product/service areas, to a greater prevalence of 'reverse diffusion', and to a more mixed pattern of union recognition and an emphasis on direct employee representation. Finally, integration may be manifested in the existence of a strategic role for the UK operations, either through managing a product or service on behalf of the worldwide company or through being a source of R&D expertise. This too is significant: operations with a strategic role are more likely to use international project groups, and to have expatriates and secondments.

International HRM structures

In this study, international HR structure is both an *outcome* of broader structural factors, as we discussed in chapter 2, and an *influence* on our four substantive areas of HR/ER, as we have detailed in chapters 4-9. Thus we have asked two questions. First, what organisational factors, such as size, nationality and sector, influence HR structures? Second, what associations exist between HR structures and HR policies?

We have looked at several components of international HR structure:

- The collection of data on a range of HR items;
- the existence of an international HR committee;
- mechanisms for bringing HR managers together regularly at an international level;
- international HRIS;
- international shared services.

On the first question, these elements are influenced by structural variables such as nationality and size, as discussed above. On the second, they have, in turn, an influence over many different areas of HR/ER. The extent of the significant associations is striking. The impact of HR structure is especially felt in pay and performance and in organisational learning. More broadly, it is associated with greater degrees of control over UK operations by higher organisational levels, and with the likelihood of reverse diffusion. It is much less associated with employee representation practices, other than with the existence of EWCs. Three elements of international HR structure stand out for their influence on a range of areas: collection of HR data, international HR committees, and the bringing together of HR managers from different countries. The other elements of HR structure – HRIS and international shared services – also have a significant impact, but in specific areas of HR/IR practice. Both are widely associated with lower discretion. They are also linked with some substantive practices, such as the use of forced distribution, upward appraisal, variable pay, and share schemes, and to an HR role for overseas operations and HR managers.

The ‘Key Group’

An innovation in the survey was to ask about a ‘key group’ with a specific core competence of importance to the firm. We have shown that the great majority of firms (80%) can identify such a group and that it represents a meaningful category. Groups are widespread and – in contrast to other aspects of the results discussed above – do not seem to be related to structural features of firms or to the nature of the HR function.

There is also evidence that the KG is treated in distinct ways. In relation to pay, individual performance pay is used to a greater extent than it is for the LOG. And, in the setting of pay in relation to market comparisons, firms’ practice in relation to the KG is closer to that for managers than it is to that for the LOG. In relation to training, the KG is treated as a distinct group in terms of the provision of development programmes but it scores lower than do managers in the use of ‘high potential’ practices. Yet the differences are not huge, and are quite small on some areas of policy, for example with regard to short-term assignments. A KG does seem to be an important component of many firms’ activities, with distinct sets of employment practices.

Implications

This report has laid out some key results of the survey. It is not intended to lead directly to practical lessons, but there are some broad implications.

First, and perhaps most important, is the diversity of practice. Some studies of MNCs identify a few types and argue that practice stems from these types. For example, a large subsidiary that plays a central role in a firm will have an integrated set of HR practices, whereas in smaller and less central subsidiaries HR may be left much more to local choice. But there is nothing inevitable about this. A major implication of this other work is that relationships depend on many factors including personal relationships, strategic choices, and the history of a firm. They cannot be reduced to a few structural conditions. We have shown here that in some respects, detailed above, structural influences are not important while, in others, their influence is strong without being overwhelming: we never observe that all firms with a characteristic behave in one way while those without it behave in another. We experimented with a number of ways of categorising firms – for example, those that are more standardised and with a higher level of production integration, as against those with lower scores on these features – and found that the patterns that might be expected are weak or absent. There is a degree of openness of choice.

Second, and related to this, there is no single model of the MNC. Succession planning is one of the most central practices in debates on international management. Yet one-third of firms do not use it. The issue here is not whether they are right or wrong to take this approach: we simply note that they are in the minority, that the practice is widely seen as central to an MNC, and that it may be appropriate to review explicitly whether or not the practice is indeed pertinent to any particular firm's circumstances.

Third, however, some practices are very common. Chapter 8 showed extensive use of international networks and international task forces, and noted that only 9% of firms have no such mechanism. Chapter 6 pointed to extensive, though less widespread, use of project groups within the UK operations and to the extent of learning about employee involvement from sources outside the firm. Practices of this kind seem to reflect something of the nature of any MNC. By contrast, Chapter 4 showed that 'forced distributions' in appraisal systems are less common than might be expected.

Firms can readily use the data in this report to identify where they stand. If they do not use a practice, why not, and what are the consequences for other aspects of HRM? If they do use it, does it meet its stated aims and is it integrated into a deliberate strategy?

Fourth, features of firms' structures and context play some role. Nationality, organisational structure, and sector all influence a range of HR practice, as we have shown above. For example, Japanese firms use international networks relatively little, and parent-country expatriates rather commonly. Managers in such firms would need to take account of such distinct approaches when setting themselves against a 'global standard'. Equally, however, they may wish to debate whether they see a need to move towards standard practice. National differences are clear but far from absolute.

Fifth, HR structures – in the form of committees, informal linkages, and information systems – play a central role in a very wide array of practices. Given their central role, it may make sense for any firm to address just how these structures are organised and resourced and whether their influence might be further enhanced.

- Who, for example, is on any HR committee?
- Are the links between HR practice and wider organisational strategy clearly identified?
- And are there appropriate feedback mechanisms?

We saw in Chapter 4, for example, that performance appraisal schemes are widespread and that individual, group, and organisational performance all contribute to the appraisal of individual employees. We also saw that this was one area in which HR structures make a difference. And Chapters 5 and 8 underlined the link of HR structures with training arrangements and with organisational learning. Firms might address the connections between such matters, for example the extent to which appraisal systems identify individual learning needs, how these are acted on, and the relationship between individual learning and organisational learning. Yet this is a matter of 'top-down' influence in the sense that individuals are appraised on a set of criteria. What role does the appraisal process play in learning about career objectives or training needs, or indeed about how effective the whole process is felt to be, and how are any conclusions fed back? Should the HR function play more of a role in developing such feedback loops?

Sixth, the survey shows connections among the different parts of HR practice, such as the use of information systems and the presence of international committees. As recent CIPD research shows, HR structures and policies are related to each other, and there is a central question as to whether the structures allow the policies to emerge, or whether a policy – for example to reduce costs or to standardise practice – encourages the setting up of new structures (Perkins, 2006: xii). A snapshot survey such as the present one is unable to adjudicate between these possibilities. But, in line with our remarks above about strategic choice, we suspect that they are often mutually reinforcing. A firm contemplating strategic change in its HR arrangements may then, our evidence suggests, wish to consider the package of HR systems that we have identified as a key part of its future direction.

Finally, most firms identify a key group and it thus seems clear that many firms are trying to focus on employees with core competencies. The survey lacked the space to assess in detail the management of the KG, but there are evident issues to do with the recruitment and development of the KG. The more that a very specific group has core competencies of importance to the organisation as a whole, the more might attention focus on this group, not least in linking its members in the UK with similar employees elsewhere in the worldwide company. The HR function may be well-placed to play a central role in this process.

In short, the findings presented here provide an unprecedented picture of MNCs both overall and in relation to certain key characteristics. Managers can use this picture to assess and reflect on their own set of HR practices.

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