

**The role of subsidiaries in developing the multinational corporation's global  
HRM**

*- Work in progress*

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*In recent years the traditional role of the corporate HR function as the sole developer of the corporations HRM content and processes has been questioned due to the challenges that large multinational corporations present. This article thus examines the role of subsidiaries in developing the corporations' global HRM policies and guidelines. More specifically put, this article looks at factors determining the level to which the different subsidiaries impact the formation of the corporation's global HRM system. The contribution of this article is, building on the notion of subsidiary influence on corporate level decision-making, to expand our understanding regarding how subsidiaries can affect corporate-level decisions on HRM. This is done by looking at the relationship between selected MNC, subsidiary characteristics and perceived subsidiary impact on corporate HRM decisions as reported by corporate HR representatives. The developed hypotheses will be tested on a sample of 123 subsidiaries from 12 Nordic MNCs.*

**Key words:** MNC, subsidiary, influence, human resource management

## **1 Background**

The role of the subsidiary in the MNC has attracted considerable research and, as already argued more than a decade ago by Andesson and Pahlberg (1997), subsidiaries are not necessarily passive implementers of centrally determined strategies, but, rather play an active role in the MNC. In the same way as subsidiaries in strategic management research have been recognised as potentially important players in the development of the MNC, subsidiaries could be seen as potentially important players in the development of the corporation's global HRM process and content. Developing the corporations HRM has nevertheless been seen as a core task of the corporate HRM function. Evans et al. (2010) however highlight the

challenges that the nature of a multinational corporation presents when it comes to developing global HRM content and process. According to the authors it is the global integration – local responsiveness framework (Bartlett and Ghoshal 1989) that lie at the centre of the challenges faced by the MNCs when trying to develop their global HRM system i.e. MNCs have to tackle the question of how to create an HRM system that at the same time has some degree of global standardization and is sensitive to local needs. The challenging nature of the question on how to create this kind of an HRM system has driven research on the area of how HRM process and content actually is designed and developed within multinational corporations.

One study is Farndale et als. (2010) study that identified four different approaches to HRM practice design in MNCs, the: proactive, iterative, reactive and value-driven approach. The proactive approach is a headquarter-driven approach where the corporate HR function decides what HR policies and practices are needed after which these are formally disseminated across the organization. In the iterative approach the focus is on learning, here HRM practices and policies are incrementally improved on an ongoing basis. The reactive approach describes organizations without any overall global HRM policy where corporate HR addresses problems as they arise. Finally in the value-driven approach less emphasis is placed on producing written HRM policies and guidelines and instead a strong corporate culture is promoted with related HRM principles. Of these approaches, the proactive and the reactive ones clearly seem to apply a top-down approach to HRM practice development, whilst the two other approaches do not literary exclude the subsidiaries from the design process. Farndale et als. (2010) study however describes *what* MNCs do in terms of HRM practices design, leaving the question of *who* is involved in this process open. The focus of this article is thus going to be on the question of *whom*, or more specifically, on the factors

determining the level to which the different subsidiaries affect the formation of the corporation's global HRM system. In this article, I thus outline a model of factors determining the level to which subsidiaries affect corporate decisions on global HRM.

## **2. Subsidiary impact**

In this paper, as stated earlier, I am looking at different ways in which a subsidiary can affect corporate decisions on global HRM. Here I am only interested in the outcome, i.e. whether or not the subsidiary has been able to affect the formation of the corporations global HRM, and if, to what extent (this will hereafter be referred to as subsidiary impact) This regardless of if the subsidiary has been able to affect the decision through: (1) influencing corporate decisions or, (2) being invited by the headquarters to participate in the decision-making. I will below go through the fundamental differences between the two concepts *influence* and *participation* as these are central to the paper and tackle the phenomenon from different angles.

Influence is used here in the same way as Andersson and Pahlberg (1997) did and in accordance with the terminology of Bacharach and Lawler (1981) who regard influence as on aspect of the power concept, authority being the other aspect. Here influence is seen as the ability to informally affect behaviour while authority builds on the formal ascribed right to control behaviour. Andersson and Pahlberg (1997) argue that the more the MNC depend on an individual subsidiary the easier it will be for this subsidiary to influence the MNC and the harder it will be for the headquarters to exercise its formally ascribed right to control the subsidiary. In accordance with this and also argued by Andersson and Pahlberg (1997) the different subsidiaries will have different prerequisites to exercise influence over the MNC as they will process different kinds of resources that may or may not create a dependency

between the two parties. Influence can thus be seen as a way for a formally weaker party to affect a formally stronger party or a party in a stronger hierarchical position.

Existing research on subsidiary influence over corporate decision-making has demonstrated the importance of a subsidiary's relative level of power in the MNC – in terms of controlling critical resources, subsidiary embeddedness in external local networks and ability to provide competences to sister units (Andersson et al. 2007; Andersson and Pahlberg 1997; Andersson and Forsgren 2000).

Participation, on the other hand, is often initiated by the formally stronger party and is defined as joint decision making by parties on different hierarchical levels in an organisation (Wagner and Gooding 1987). Some multinationals might for example allow subsidiary representatives to participate in the decision-making or ask subsidiary representatives for advice without any power struggle having to take place between the two parties.

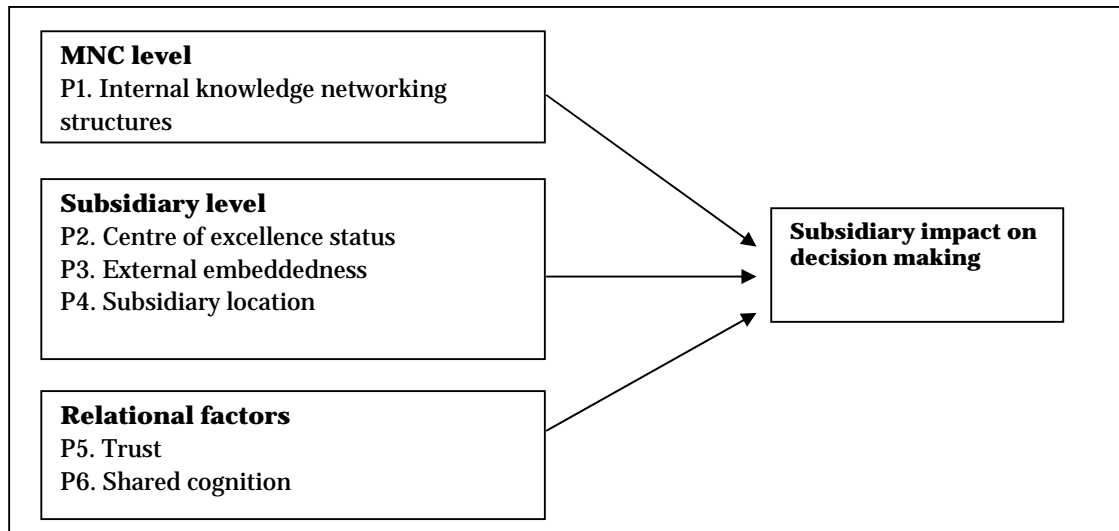
To sum up, the main point here is that subsidiaries can affect global HRM either through exercising informal influence through possessing specific resources that the MNC is dependent upon, through being invited by the headquarters to participate in the development of the global HRM or through building a good relationship where the different parties know each other's areas of expertise and freely can ask the other one for advice on particular issues. It is however unclear how these different forms of possibilities to affect the corporations global HRM relate to each other in determining the level to which subsidiaries affect the formation of the corporations global HRM.

### **3. Factors determining the level to which subsidiaries impact the corporation's global HRM**

In this article, I outline a model of factors determining the level to which the different subsidiaries affect the formation of the global HRM system in MNCs. Drawing on previous research on the area of subsidiary influence over corporate strategic decisions (Andersson, Forsgren, Holm 2007; Andersson and Forsgren 2000; Andersson and Pahlberg 1997; Forsgren, Holm and Johanson 2005) I argue that the degree of influence depend on how dependent the headquarter is on the resources possessed by the individual subsidiaries. Additionally I argue that the degree on influence depend upon the structures the organizations have in place that allow participation in decision-making and on the social relationships between the subsidiary and MNC headquarters. The contribution of this article is building on the literature on subsidiary influence over corporate strategic decisions, to expand the current explanations regarding how subsidiaries can affect corporate-level decisions, by: (i) in addition to looking at subsidiary influence over corporate decisions, also look at headquarter initiated participation in decision-making and how the relationship between the headquarters and the subsidiaries can help the subsidiaries affect the formation of the corporations global HRM, and (ii) looking at decisions regarding global HRM.

One considerable difference between the research on subsidiary influence over corporate strategic decisions and the focus of this study is that the focus of the primer is on strategic decisions in general whilst the focus of this study is specifically on how subsidiaries can affect the formation of the corporations global HRM. Additionally this study does not limit itself to only looking at subsidiary influence but incorporates different ways in which a subsidiary can affect corporate level decisions. Frameworks particularly drawn upon when developing the below propositions are studies on MNC structure (Evans et al. 2010, Tregaskis 2003), resource dependency and legitimacy within the MNC (Pfeffer and Salancik 1987; Trageskis 2003) and social capital theory (Nahapiet and Ghoshal 1998).

I have identified antecedents at three levels of the organization that are likely to have an effect on the level to which subsidiaries affect corporate decisions on HRM. First factors at the MNC level are explored, second factors at the subsidiary level and finally factors related to the relationship between the subsidiary and the corporate headquarters are explored. The conceptual model is visualised in Figure 1.



**Figure 1. Conceptual model**

### **3.1 MNC level**

**Internal knowledge networking structures.** Inter-unit communication and structures that bring employees together has been shown to be important when it comes to the creation and diffusion of innovations within complex multiunit organizations (Ghoshal, Korine and Szulanski 1994; Snow, Snell, Davison and Hambrick 1996). A number of previous studies have shown that the extent of interaction between members of different organizational units or groups increases knowledge sharing between them (Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998). In order to increase the communication and interaction within the MNC and

at the same time address the global integration – local responsiveness (Bartlett and Ghoshal 1989) dilemma, some MNCs have created different kinds of structural network solution regarding how to organize the HR function so that it better meets global needs (Dickmann, Müller-Camen and Kelliher 2009; Evans et al 2010; Sparrow et al. 2004).

Gupta and Govindarajan (2000) regard such knowledge networking structures as integrative mechanisms as they are seen to bring the different parts of the MNCs closer together. Tregaskis (2003) further points out that organisational structures that promote integration across the global operations provide the MNC with great potential to acquire valuable knowledge. According to Dickmann et al. (2009) these structural networks can operate at different levels of the organization. Whilst Dickmann et al. (2009) do not go further into defining what these networking structures look like in practice, Evans et al. (2010) specify that they can either be of a more permanent or project based nature as well as of a more formal or informal nature. In order to cover the different dimensions suggested by Evans et al. (2010) the structural solutions in focus in this study are: functional committees, communities of practice and cross boundary project groups. Functional committees are regarded to be of a formal and permanent nature, where HR managers from the MNC gather a certain number of times each year (Evans et al. 2010). Communities of practice are regarded to be more informal as participation in these is voluntary (ibid.) and cross boundary project groups, whilst being formal, only last for shorter time periods and are recognized as a means of bringing employees together to interpret information, share ideas and generate new knowledge (Lei et al. 1999).

Creating structural networks within the organization in order to facilitate knowledge sharing and communication within the MNC can be seen as an invitation from the corporate headquarters to the subsidiaries to get involved in MNC internal affairs. In this way subsidiaries are offered an opportunity to participate in corporate decisions on global HRM.



In accordance with the above, I propose the following relationship between the use of HR related corporate internal knowledge networking structures and subsidiary effect on corporate HRM decisions:

**Proposition 1:** The extent to which corporate structural mechanisms are used in the development of HRM will be positively related to a subsidiary's effect on corporate HRM decisions.

### **3.2 Subsidiary level**

The below propositions build on a resource dependency and legitimacy perspective and can be seen to affect the subsidiaries relative level of power within the MNC. A subsidiary's relative level of power within the MNC has, as earlier mentioned, been recognized as an important source of influence on corporate strategic decision-making (Andersson et al. 2007; Andersson and Forsgren 2000). This stream of research build on the view of influence presented by Bacharach and Lawler (1981), where influence is seen as one aspect of the concept of power.

**Centre of excellence status.** Already in 1986 Bartlett underlined that MNCs should consider their subsidiaries as a source for “ideas, skills, capabilities and knowledge”, and use this for the benefit of the whole organization. If a subsidiary would be seen as an important source for the mentioned ideas, skills, capabilities and knowledge, this could act as source of power for the subsidiary. This argument is based on the resource dependency theory (Pfeffer and Salancik 1987) where knowledge is viewed as a resource and can thus create dependencies within the MNC. By creating dependency, knowledge has the potential of being a source of power.

A centre of excellence is a unit that embodies a set of capabilities and has explicitly been recognized by the MNC as an important source for value creation. Furthermore the intention of the MNC is to leverage the capabilities embedded in the centre of excellence by disseminating them to other parts of the organization (Frost, Birkinshaw and Ensing 2002). Adenfelt and Lagerström (2006) took a closer look at the role of centres of excellence in developing and sharing knowledge within multinational corporations. They found that knowledge development in centres of excellence occurs on a local level whilst it is shared globally. As knowledge is created locally in centres of excellence and afterwards shared globally it increases the MNC dependency on the centre of excellence as a source of knowledge. Frost et al. (2002) points out that a centre of excellence is not equal to a subsidiary, but that a subsidiary can encompass one or more centres of excellence within different organizational and functional areas. This would suggest that a subsidiary that is recognized by the MNC to encompass a centre of excellence when it comes to HR would be more likely to influence corporate HRM decisions compared to a subsidiary that does not have this status. Therefore I propose:

**Proposition 2:** A subsidiary that is formally recognized to encompass an HR centre of excellence will be more likely to affect corporate HRM decisions than a subsidiary that does not.

**External embeddedness.** In strategic management research a subsidiary's embeddedness in external networks has been shown to affect a subsidiary's influence on decisions within its MNC division (Andersson and Forsgren 2000). It is argued that this relationship derives from the fact that a high level of external embeddedness is positively related to a subsidiary's

ability to provide unique expertise to the MNC (Andersson and Forsgren 2000; Andersson et al. 2007). Whilst embeddedness in the external environment is seen as important for knowledge development in the MNC, Andersson et al. (2007) point out that a too high level of embeddedness in the external environment can make the subsidiaries focus on the local environment rather than on the MNC and that way decrease the subsidiary's motivation to get involved in MNC internal power struggles. This would suggest that a high level of embeddedness in the local environment would increase a subsidiary's possibility to influence corporate decisions, but at the same time it would decrease its willingness to do so. I, however, argue that this could only hold as long as the corporate decisions made would not influence the subsidiary. According to Forsgren et al. (2005) a high level of embeddedness in the external environment decreases the level of influence the MNC can exert over the subsidiary, as a subsidiary in this kind of a position more easily can avoid corporate influence. The focus of this study is on the corporate decisions regarding the MNCs global HRM; this is something that would have an influence on the subsidiary if it would not react to it. In order to avoid such influence the subsidiary would have to act and by acting the subsidiary would have to influence corporate decisions and that way be able to avoid the influence of these decisions. It can thus be expected that a subsidiary in this case is likely to use the power deriving from its embeddedness in the external environment to affect corporate decisions on global human resource management. Therefore I propose:

**Proposition 3:** The level of subsidiary embeddedness in the external environment will be positively related to a subsidiary's effect on corporate HRM decisions.

**Subsidiary location.** According to Smith and Meiksins (1995) history shows that there has always been a clear hierarchy between economies, where some have dominated over others. The dominant ones have according to them been seen to represent modernity, the future and

development. The authors thus raise the question regarding why some countries act as benchmark for general efficiency whilst others do not. The legitimacy perspective helps us in understanding that certain types of knowledge or knowledge deriving from certain sources is regarded as more legitimate - valid, reasonable, rational - than others (Deephouse, 1996). Trageskis (2003) explains that when the concepts of resource dependency and legitimacy are combined they create insights into the fact that it is the socially ascribed legitimacy of knowledge that reinforces its value as a scarce and critical strategic resource. According to DiMaggio and Powell (1983) organizational actors that have or create and control such forms of knowledge can use this to influence the behaviour of others. Smith and Meiksins (1995) follows the same line of argument as they say that it is the relative economic performance of certain countries that give them this attention and thus make the knowledge deriving from these countries socially legitimate. Gupta and Govindarajan (2000) found in their research that subsidiaries located in countries with a higher level of economic development relative to the parent had a significantly higher level of knowledge outflows to the parent corporation than those subsidiaries located in countries with a relatively lower level of economic development. In accordance with this it could be expected that subsidiaries located in countries with a high level of economic development will be more likely to affect corporate decisions on global HRM than subsidiaries in countries with a low level of economic development. Hence:

**Proposition 4:** The level of economic development of the host country will be positively related to the subsidiary's effect on corporate HRM decisions.

### **3.3 Relational factors**

Building on knowledge transfer (Gupta and Govindarajan 2000) and social capital (Nahapiet and Ghoshal 1998) theory the below propositions show how subsidiaries can influence corporate HRM decisions by cooperating with the corporate headquarters. Rather than being based on an internal power struggle between the subsidiary and the corporate headquarters, the mentioned theories suggest that subsidiary influence can be based on cooperation and that the level of influence would depend on the extent to which the subsidiary and corporate headquarters trust each other and the extent to which they share the same cognitions. I will below focus on relational and cognitive social capital, as structural social capital to some extent can be seen to be covered by the first proposition regarding individual interaction across units through different kinds of networking structures within the MNC.

**Trust.** According to Tsai and Ghoshal (1998) when two parties trust each other they are more willing to share knowledge and resources without fearing that the other one will take advantage of them. The authors further suggest that cooperative behaviour which implies sharing knowledge and resources is more likely to emerge when the involved parties trust each other. Mäkelä, Kalla and Piekkari (2007) further point out that the importance of trust is even higher when one is dealing with an MNC, as the multinational context creates additional geographical, cultural and linguistic barriers to interaction. In accordance with the above arguments, if the individuals in the subsidiary and the ones at the corporate headquarters would trust each other they would not need to fear that the other one would behave opportunistically, but rather they could build on each others' strengths in building a global HRM system that would benefit the whole organization. The subsidiary could though through the trusting relationship get its ideas and concerns through to the headquarters and that way be able to affect corporate decisions. Therefore I propose:

**Proposition 5.** The level of trust between the subsidiary and the corporate headquarters will be positively related to the subsidiary's effect on corporate HRM decisions.

**Shared cognition.** Cognitive social capital is referred to as the extent to which persons share the same cognitive framework in terms of vision, language and narratives (Tsai and Ghoshal 1998). When members in an organization share the same vision and work towards the same goals they are more likely to share and exchange resources (ibid.). According to the authors this is because when members in an organization have the same perceptions about how to interact and at the same time work towards the same objective, possible misunderstandings can be avoided and ideas can be shared more freely. It can thus be expected that when the subsidiaries share the same vision with the headquarters it will be easier for the two parties to, not only communicate with each other, but to understand each other and that way work towards solutions that will benefit both parties. This would mean that when the subsidiary and the corporate headquarters share the same cognitions it will be easier for the subsidiary to get its ideas and concerns through to the headquarters and that way the subsidiary would be able to affect corporate decisions. In accordance with these arguments I propose:

**Proposition 6.** The level of shared cognitions between the subsidiary and the corporate headquarters will be positively related to the subsidiary's effect on corporate HRM decisions.

#### **4 Discussion and conclusion**

In this article, I have developed a model of factors determining the level to which subsidiaries affect corporate decisions on global HRM. The conceptual model developed here intends to extend current research by in addition to looking at subsidiary influence over corporate

decisions, also look at headquarter initiated participation in decision-making and how the relationship between the headquarters and the subsidiaries can help the subsidiaries affect the formation of the corporations global HRM. I hope the propositions presented in this article will inspire researchers to do further conceptual and empirical research on this contemporary and important topic and further explore the ways in which subsidiaries can affect corporate level decisions.

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