The John H Dunning Centre
for International Business

Henley
Business School
UNIVERSITY OF READING

Discussion Paper

The HRM of Foreign MNCs Operating in Europe

March 2015

Chul Chung
Henley Business School, University of Reading, UK

Masayuki Furusawa
Faculty of Business Administration, Osaka University of Commerce, Japan

ASSOCIATION OF MBAs ACCREDITED

EFMD EQUIS ACCREDITED

AACSB ACCREDITED

The aim of this discussion paper series is to disseminate new research of academic distinction. Papers are preliminary drafts, circulated to stimulate discussion and critical comment. Henley Business School is triple accredited and home to over 100 academic faculty, who undertake research in a wide range of fields from ethics and finance to international business and marketing.

dunning@henley.ac.uk

www.henley.ac.uk/dunning

The HRM of Foreign MNCs Operating in Europe

Abstract

Europe has been a major destination for foreign direct investment as one of the triad economies with the USA and Japan. MNCs have brought not just financial resources but also human resources and, in many cases, particular ways of managing workforces from their home base. Transferring HRM practices could be highly complex and challenging, as human resources are the most country-bounded resources. Foreign MNCs operating in Europe face cross-national challenges stemming from the process of transfer and adaptation of HRM practices, due to the uniqueness of European traditions as well as the national diversity within Europe in relation to employment relations. This paper examines how MNCs from three different countries – the USA and Japan, the two other triad economies, and South Korea, a home base of emerging MNCs – have dealt with the challenges in managing human resources in their European operations within the given institutional contexts.

Contacts

Chul Chung, Henley Business School, University of Reading, RG6 6UD +44 (0)118 378 7751

c.chung@henley.ac.uk

Introduction

Europe has been a major destination for foreign direct investment as one of the triad economies with the USA and Japan (UNCTAD, 2014). US MNCs and, later, Japanese MNCs invested significantly in European countries in order to develop markets and expand their operations in the region. More recently, emerging MNCs from countries other than the triad economies have come to Europe and set up their operations. These various MNCs have brought not just financial resources but also human resources – expatriates – and, in many cases, particular ways of managing workforces from their home base. Transferring HRM practices could be highly complex and challenging, as human resources are the most country-bounded resources (Rosenzweig and Nohria, 1994). Foreign MNCs operating in Europe face cross-national challenges stemming from the process of transfer and adaptation of HRM practices, due to the uniqueness of European traditions as well as the national diversity within Europe in relation to employment relations (Scullion and Brewster, 2002). This paper examines how MNCs from three different countries – the USA and Japan, the two other triad economies, and South Korea, a home base of emerging MNCs – have dealt with the challenges in managing human resources in their European operations within the given institutional contexts.
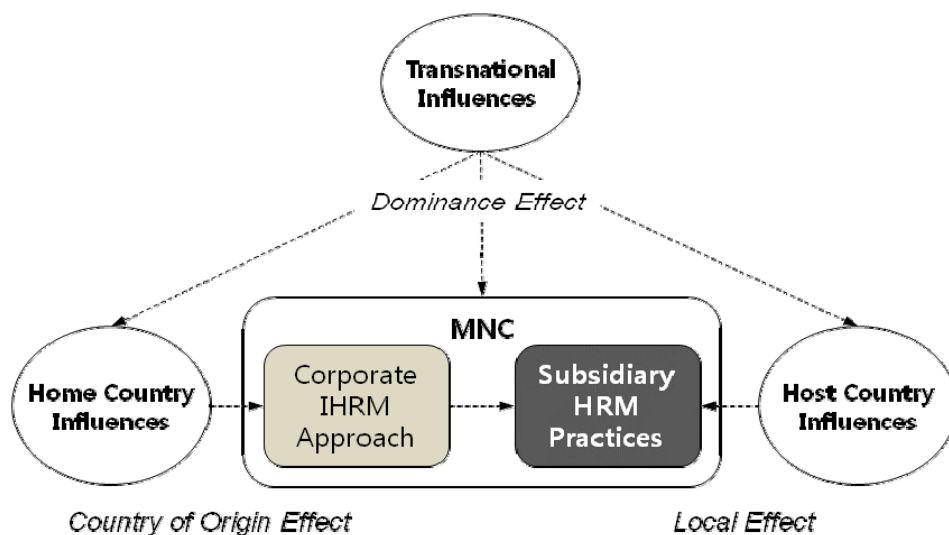
Managing human resources in MNCs

One of the key issues in managing human resources in MNCs is how to adapt their headquarters-based or global ways of managing human resources to the different national contexts in the host countries on the one hand, and how to utilise their dispersed workforces and coordinate overseas HRM operations to exploit the benefits of scale and scope fully as a multinational organisation (Evans et al., 2011; Rosenzweig, 2006). Two aspects in managing human resources in MNCs have been highlighted in the international HRM literature: (1) the degree of global standardisation versus localisation of subsidiary HRM practices and (2) the utilisation of parent country nationals (PCNs) versus host country nationals (HCNs) in subsidiary staffing of MNCs.

Researcher have identified a number of factors which shape subsidiary HRM practices by examining various institutional influences on such practices as shown in Figure 1. These include the home country influences on corporate level IHRM strategy and subsequently on the subsidiary ('country of origin effect'); the host country influences ('local effect'); and the transnational influences ('dominance effect') (Pudelko and Harzing, 2007). For example, it was claimed that as HRM practices of MNEs are subject to strong pressures to adapt to local ways of practicing HRM, they tend to adopt local practices (Rosenzweig and Nohria, 1994). Another

variant of the research suggests that MNCs are deeply embedded in the national institutional arrangements of their country of origin and accordingly their HRM practices in foreign operations are strongly influenced by their home practices (Ferner, 1997). It was found that MNCs may adopt HRM practices from a dominant nation (e.g. the USA), perceived as advanced practices (Pudelko and Harzing, 2007). In short, the subsidiary HRM practices are shaped by various institutional influences and the degree of relative influences of the three forces on subsidiary practices could be different depending on a particular context. It should be noted that there is still a room for manoeuvre by corporate or subsidiary actors who are involved in the design and implementation of subsidiary HRM practices in a given institutional context (Geppert and Williams, 2006).

Figure 1 The influences on subsidiary HRM practices of MNCs

In a similar vein, studies of subsidiary staffing have focused on whether and when MNCs utilise PCNs (or HCNs) for positions in subsidiaries (Gong, 2003). One of the key findings in the studies is the strong effect of country of origin on the tendency of utilising PCNs in subsidiary key positions, as Japanese MNCs utilise PCNs more for subsidiary managerial positions than US or European MNCs (Harzing, 2001; Kopp, 1994). The contextual factors such as cultural distance (Gong, 2003) and institutional distance (Gaur et al., 2007) between a home and a host country have been identified to explain when the use of PCNs (or HCNs) would be more beneficial for subsidiary performance. In short, a particular context of a home and a host country matters as a major factor that shapes the patterns of subsidiary staffing as well as subsidiary HRM practices.

The HRM of US MNCs

HRM in the US context

The USA has been considered as a major source of contemporary HRM ideas and practices since the field of 'human resource management' was developed in the USA in mid-1980s (Parry et al., 2008). Though introduced and used widely across the world, HRM could be considered as a product that has evolved from particular social and institutional contexts in the USA (Guest, 1987). HRM in the US context has often been characterised by the high degree of freedom that companies enjoy in deciding how to manage their employees (Brewster, 1995). As a 'liberal market economy' (Hall and Soskice, 2001), the American business system imposes fewer restrictions on firms' HRM practices, allowing US firms to experiment and develop distinctive HRM practices which might be geared toward pursuing shareholders' interests rather than wider societal values (Guest, 1990). HRM practices that are intended to enhance workforce flexibility and performance, such as contingent employment and pay systems, have been largely utilised by American firms (Brewster et al., 2011). It was noted that employment practices in the USA, particularly their 'proactive' stance (Ferner et al., 2011; Lawrence, 1999), contrasts those in European countries where national governments and other social institutions play a significant role in shaping practices with regard to employment relations and employee welfare (Brewster, 1995).

Another notable aspect of the US HRM is the high degree of formalisation and standardisation in its practices (Edwards et al., 2010). Ferner and his colleagues (2004) pointed out that this distinctive feature has been shaped by a number of historical factors in the USA. First, the growth of large firms which were increasingly dispersed across a wide range of geographical locations domestically and later internationally promoted the development of bureaucratic control mechanisms in general and in personnel management systems in particular. In addition, the adoption of scientific management promoted the codification of job requirements and job descriptions (Baron et al., 1986). The growth of white-collar occupational groups further facilitated the introduction of highly specified and formalised job structures and performance evaluation methods (Edwards, 1979). Second, in the two world wars, US firms were required by the government to control the number of hired employees and provide detailed information on their workforce in order to contribute to national wide manpower planning for the war economy (Jacoby, 1985). To respond, firms developed a systematic classification structure to document employees' jobs by skill and wage categories. To create more efficient management of workforces, sophisticated techniques such as selection testing, job evaluation and internal

career ladders were developed (Jacoby, 1985). Third, the use of the systematic and formalised HRM practices for fair and consistent treatment of employees was further promoted by the legislation of Equal Employment Opportunity (EEO) as well as the development of the company-level collective bargaining model in the post-war period to manage tensions arising from the concerns for job security in the difficult economic condition (Jacoby, 1985). Although the American context of HRM can be characterised by the relatively deregulated labour markets, legislations does exist in relation to equality and diversity issues in workplaces. US firms are liable if they fail to proactively prevent incidents which can be associated with any form of discrimination under the EEO Act, which enforces affirmative actions against discriminations based on an individual's race, national origin, religion, sex, age, disability and sexual orientation (Ferner et al., 2005).

HRM of US MNCs operating in Europe

Influenced by these historical and institutional developments in the home country, the approach to international HRM of US MNCs are distinctive in two respects. One is the relatively strong tendency towards global standardisation in HRM practices across different subsidiaries and the other is the more limited utilisation of expatriates and the greater use of local employees in key positions in subsidiaries. These patterns in HRM of US MNCs were found in their European operations too.

Global standardisation of subsidiary HRM practices

Studies of HRM practices in the European subsidiaries of US MNCs have shown evidences of global standardisation of subsidiary practices following practices in US parent firms (e.g. Collings et al., 2008; Harzing, 1999). US MNCs tend to exert central control over their European subsidiaries by attempting to transfer their home practices to the European operations. In practice, though, they also adapt to local contexts to some degree (Collings et al., 2008; Ferner et al., 2004). Almond and his colleagues' (2005) intensive case study on HRM policies of a large US IT company's operations in four European countries – Germany, Ireland, Spain and the United Kingdom – shows the typical approach of US MNCs. The orientation in international management of the American firm in Europe has evolved from a strongly ethnocentric approach which lasted until the 1980s, to a decentralised approach giving greater autonomy to national subsidiaries during the late 1980s, and then to a regionalisation approach which allowed the Europe headquarters to exert more influence over subsidiaries in the region since the 1990s. Though the case study demonstrates a dynamic interplay of local effects and country of origin effects in subsidiary HRM practices, the strong tendency of global uniformity towards the US

parent's HRM model is clearly evident. In a large-scale survey research project on MNCs from the United States, Japan and Germany across subsidiaries in the three countries, Pudelko and Harzing (2007) also found that subsidiaries of US MNCs tend to transfer their US parent practices more than their counterparts of German and Japanese MNCs.

These findings reflect the particular characteristics of US HRM practices developed in the home institutional context (Ferner et al., 2011). As US firms developed early the formalised and standardised practices in managing geographically dispersed organisations in their home county, it tended to be taken for granted that they continued their particular way of managing dispersed units even when they expand their businesses operations abroad (Ferner et al., 2011). The high degree of codification of HRM practices in US firms would, it was assumed, make it straightforward to transfer the practices across the borders and furthermore; the US dominance in the world economy during the last decades might lead US managers as well as subsidiary managers to consider US home practices as advanced ones (Ferner et al., 2011).

However, it was also found that the transfer of the US home practices to subsidiaries in Europe is not entirely straightforward due to significant differences between the US and European contexts. One of the noticeable examples is the case of 'diversity management' practices. A case study on UK operations of 6 US MNCs (Ferner et al., 2005) shows that the implementation of the transferred diversity management policies was at best incomplete and subject to considerable local adaptations, even when the associated practices were highly comprehensive and concrete, including global corporate value programmes, global organisational structures designed to support diversity initiatives, global target setting and monitoring, and international diversity training. Subsidiary managers claimed that the key features of the transferred policies were derived from 'pressures and opportunities specific to the American business system' (p. 315) and rejected aspects of the diversity policies on the basis of UK and EU legislation, which, for instance, prohibit positive discrimination such as target setting to increase the percentage of women managers, or the distinctive composition of local labour markets.

Another area of marked differences between the US and European contexts is the practice of employee voice and involvement. While collective communication channels such as statutory works councils and collective bargaining practices have been widely institutionalised across European countries, practices utilising direct communication channels with employees are more prevalent in the USA due to the lack of legislation concerning employee involvement in management decision making processes (Brewster et al., 2011). However, there is evidence of wide variations among European subsidiaries of US MNCs in their adoption and implementation

of European practices or US home practices depending on sector or firm-specific factors (Marginson et al., 2004; Tempel et al., 2006).

Localisation in subsidiary staffing

In contrast to the ethnocentric tendency of US MNCs in managing their subsidiary HRM practices, it has been reported that in terms of staffing US MNCs utilise local employees for subsidiary key positions to a higher degree than MNCs from other countries. For example, Harzing (2001) found that 79.5% of subsidiary managing directors of US MNCs were host country nationals, whilst it was 40.7% and 37.5% for German and Japanese MNCs, respectively. The finding is largely consistent with previous studies: for instance, in Kopp's study (1994) the percentage of local nationals in overseas top manager position, managerial and non-managerial position of US MNCs was 49%, 88%, 98%, respectively, contrasting to 26%, 48%, 81% for the case of Japanese MNCs. The lower utilisation of PCNs in subsidiary key positions in US firms can be partly explained by the type of control mechanism that US firms have developed and relied on. It could be argued that the highly codified and formalised nature of US management practices lessens the necessity of relying on direct and personal control mechanisms such as expatriation.
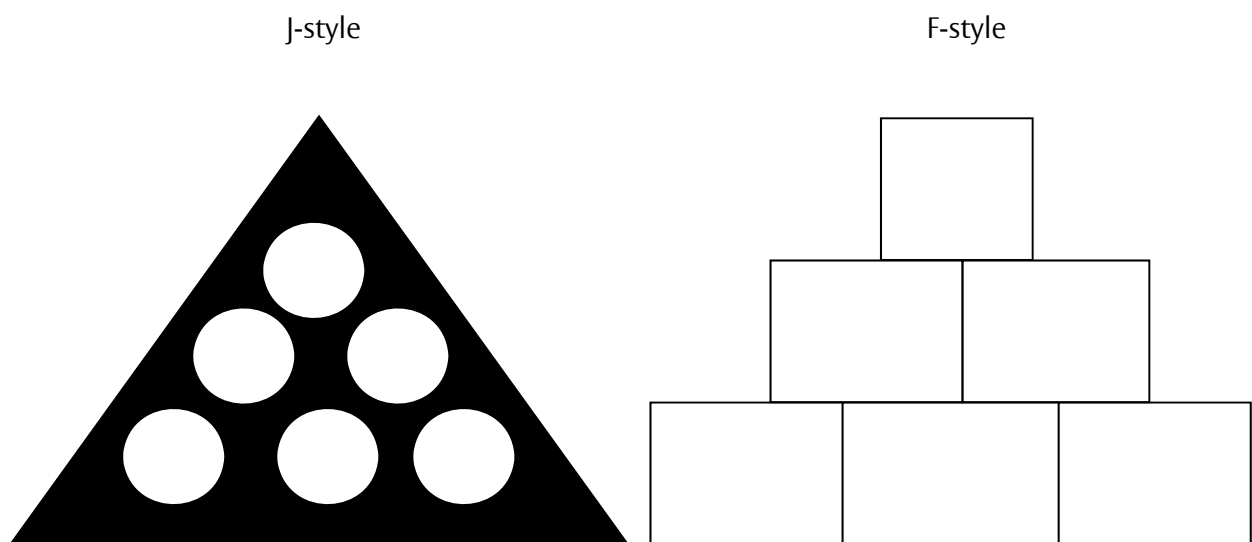
The HRM of Japanese MNCs

Stereotype of IHRM issues in Japanese MNCs

Studies of international human resource management have pointed to the slow progress of localisation of top management positions at overseas subsidiaries of Japanese multinational corporations (Furusawa, 2008; Harzing, 2001; Kopp, 1994, 1999). It is believed that localisation will contribute to the acquisition and retention of capable human resources as well as reducing personnel expenses (Evans et al., 2011; Tian, Harvey and Slocum, 2014). Nonetheless, in the case of Japanese MNCs, the existence of a persistent glass ceiling has been giving them trouble in attracting and retaining the most talented local individuals for their overseas operations (Keeley, 2001; Kopp, 1994). This, in turn, has reinforced the Japanese companies' inclination to keep sending Japanese expatriates to top management positions at the overseas subsidiaries, and a vicious circle has been created. The ethnocentric international HRM practices in Japanese MNCs have been seen as their 'Achilles heel' (Bartlett and Yoshihara, 1988).

Earlier research discussed some structural problems behind the glass ceiling. For example, Yasumuro (1982) ascribed the issue to management style influenced by the high-context culture of Japan. As Hall (1976) mentioned, Japan is a typical high-context culture country where

communication tends to be indirect and implicit. This leads to a management style in which the scope of responsibilities and authority of each employee is unclear or vague. Figure 2 compares J-style (Japanese style) organisation and F-style (Foreign style) organisation (Ishida, 1999). The white parts in the figure represent the jobs which are clearly allocated to individual employees. F-style organisation exclusively consists of white-parts, which means the responsibilities and authorities are explicitly defined. However, in J-style organisations, there are spaces (the black parts) as there are tasks that need to be done, but are not distinctly allocated to any particular employee. Hayashi (1994) named the spaces 'green areas' where strategic decisions are made through information-sharing and cooperation among the members. Local employees in Japanese overseas subsidiaries (host country nationals) who are not familiar with such a system find it difficult to be able to work effectively that way. For them, these look like 'grey areas' which are difficult to understand (Hayashi, 1994).

Figure 2 J-style organisation and F-style organisation

Source: Ishida (1999), p.69.

Yoshihara (1989, 2008) dealt with the issue from the viewpoint of the slow progress of 'internal internationalisation'. Internal internationalisation refers to the degree of internationalisation at the headquarters in Japan. In general, the career path of top executives in Japanese MNCs has been domestic-centred. An assignment to an overseas country was often negatively received by Japanese employees for the following reasons (Yoshihara, 2008: 9). First, overseas operations were considered to be less important than the main domestic ones. Second, it was not unusual for repatriating employees to find that no appropriate jobs were available on return to the

parent companies in Japan. Third, expatriates at the foreign subsidiaries were afraid of being excluded from the key networks in the Japanese headquarters or of the danger of obsolescence of their knowledge and expertise. Those situations have brought about management teams with little overseas experience and limited foreign language capability. If the Japanese headquarters appointed local employees to top management positions at the overseas subsidiaries under these circumstances, they would find it hard to communicate with the subsidiaries in foreign languages, namely in English.

Some research has related the slow progress of localisation to the peculiarity of social structures in Japan. Yoshino (1976) pointed out cultural homogeneity and group orientation as the characteristics of Japanese society. Such traits are likely to make an 'exclusive social nexus' where they build up interdependence within the group. He insisted that it was in this environment that the closed and exclusive managerial system of Japanese companies evolved. Hence, Yoshino was sceptical about the possibility that Japanese MNCs could adapt themselves to accommodate heterogeneous elements or promote localisation of management, and still function effectively in the international marketplace. Fernandez and Barr (1993) also explored the issue from the standpoint of Japanese social structure. According to them, the isolation policy in Japan from the mid-17th to the mid-19th century cultivated a very strong 'us-versus-them' mentality among Japanese people. Consequently, the Japanese view the homogeneity of their society as a key for success and regard any threat to it as being negative. Fernandez and Barr suggested that this attitude might lead to the ethnocentric management style that discriminates against non-Japanese employees in Japanese overseas subsidiaries.

HRM of Japanese MNCs operating in Europe

Europe as an investment destination for Japanese MNCs

The Japanese MNCs' investment boom in Europe occurred in the period from the mid-1980s to the early 1990s. The main purpose was to avoid the anti-dumping taxes by the European Commission and, later, to become an insider in the unified European market. The number of production sites of Japanese MNCs in Europe doubled between 1985 and 1990 (JETRO, 2003). In addition, a lot of Japanese MNCs set up their regional headquarters in Europe. At first, the investment was concentrated on the Western European countries and the most popular location for both manufacturing factories and the regional headquarters was the UK. As of 2001, the UK accounted for 46.6% of the accumulated amount of direct investment from Japan to Europe (JETRO, 2004). There were three reasons why Japanese MNCs chose to establish the regional headquarter in the UK (JETRO, 2004: 11-12). First, it was because of the official language

in the UK. Doing business in English is much easier for Japanese expatriates compared to the other European languages. The second reason was that the UK had a rich pool of business people with international experience. Third, Japanese MNCs expected to operate their European business efficiently by concentrating the investment in the UK. However, since the mid-1990s, many Japanese MNCs have begun to move their production sites from Western Europe to Central and Eastern Europe (CEE) in response to the eastward enlargement of the European Union (EU) and relatively cheap labour costs in CEE countries. The total number of their production sites in Poland, Czech, Slovakia, Hungary, and Romania grew from 2 in 1990 to 110 in 2002 (JETRO, 2003).

Now the investment to Europe has entered a mature stage. As reported in a survey of Japanese multinationals by the Japan Overseas Enterprises Association (2012), the ratio of companies which have a plan to expand business activities in Europe[1] during the next three years is relatively low (46%) compared to other areas: other Asia[2] (89%), China (78%), Central and South America (56%), and North America (48%). The same is true in terms of plans to increase local employees at their overseas subsidiaries. The ratio in Europe is 32% (other Asia=84%; China=71%; Central and South America=49%; North America=39%).

Recent staffing pattern of Japanese overseas subsidiaries

There are recent studies which show that the staffing pattern of Japanese overseas subsidiaries has been gradually changing. For instance, the survey of Japanese MNCs by the Japan Overseas Enterprises Association (2012) indicated that the ratio of non-Japanese CEOs in overseas subsidiaries of Japanese MNCs rose from 16% in 2008 to 24% in 2010 and 29% in 2012. It also shows the differences by business sectors of parent companies and locations of subsidiaries. The ratio is higher in manufacturing businesses (31%) than non-manufacturing ones (12%). Concerning location, the ratio in Europe is the highest (51%), followed by Oceania (46%), North America (42%), Middle East and Africa (32%), Central and South America (29%), Asia (17%), and China (13%). The result seems to prove that localisation is more advanced in the developed countries where the supply of well-educated and capable human resources is relatively abundant.

When we examined the staffing pattern of Japanese subsidiaries in the UK, where the Japanese MNCs have the largest number of subsidiaries in Europe, based on the data from *Kaigai Shinshutsu Kigyo Soran 2013* (Directory of Japanese Companies Abroad, 2013), it was found that

---

[1] Europe includes Russia in the survey.
[2] Other Asia in the data refers to the Asian countries or areas other than China (Mainland China). Hong Kong, Macao, and Taiwan are categorized as other Asia in the survey.

non-Japanese persons account for 38.3% of CEOs in the UK-based subsidiaries, contrasting to 26.2% in overseas operations of Japanese MNCs in Kopp (1994)'s study. The ratio is higher in manufacturing companies (45.7%) than non-manufacturing (26.6%) and the companies with relatively longer history of operations have a higher ratio of non-Japanese CEOs.

Three reasons can be offered to explain the progress of localisation in overseas subsidiaries of Japanese MNCs. The first is the impact of globalisation. In terms of sales, production, and employees, the overseas operations have already exceeded the domestic ones at many Japanese MNCs (Yoshihara, 2008). Owing to its decreasing birth-rate and aging population, the Japanese domestic market has matured. It is now anticipated that future growth will largely take place overseas. The management of fast growing overseas business requires an ample supply of human resources who can operate their subsidiaries effectively. Although Japanese MNCs used to send Japanese employees as expatriates to foreign countries for the purpose, now they are not able to respond to the requirement because of the shortage of qualified Japanese employees to fill the increasing management positions in their overseas subsidiaries scattered around the globe (Yoshihara, 2008).

The second reason is the progress of 'internal internationalisation'. As a result of the long history and high growth rate of overseas operations, Japanese executives and managers with international experience were accumulated within the headquarters. Moreover, in accordance with the growing importance of overseas business, assignments for overseas subsidiaries have been gradually becoming more attractive. Nowadays, there are many Japanese companies where overseas experience is a pre-requisite for promotion to senior management positions (Yoshihara, 2008). According to an interview-based study of Panasonic by one of the authors (Furusawa) in 2014, more than half of management executives on their board of directors and in corporate officer positions have overseas experience as expatriates. Such a qualitative change in top management will make a foundation to promote the localisation of top management positions at the overseas subsidiaries of Japanese MNCs.

The third reason concerns the reform of international HRM in Japanese multinationals. For many Japanese multinationals, the international human resource management used to be almost synonymous with the management of Japanese expatriates. Japanese multinationals did not pay much attention to the management of local employees at the foreign subsidiaries (Furusawa, 2008, 2014). However, with growing global competition and the shortage of Japanese candidates for top management positions at their overseas subsidiaries, the Japanese headquarters are beginning to take initiatives to recruit, develop and retain the best local talents for global competitiveness.

Case study

Reform of international HRM in Panasonic[3]

Panasonic launched the 'Action Programme for Localisation' in 2000. At that time, 85% of CEO positions at their overseas subsidiaries were occupied by Japanese expatriates. Panasonic faced difficulties in attracting, motivating and retaining capable local human resources around the world. The target of the programme was to raise the ratio of non-Japanese CEOs to 25% by 2007.

The execution of the programme consisted of five steps. The first was to scrutinize each CEO position at the overseas subsidiaries and decide whether it should be localised or not in the light of global strategy. If it is a position to be localised, the second step was to set a target time period to realise localisation. The third was clarifying whether there is a candidate for the position. If there was, a concrete promotion plan is developed. If there was not, the headquarters considered whether to promote from within or recruit from outside in order to fill the position as the fourth step. In the case of promotion from within, the fifth step proceeded to connect with the succession planning programme of Panasonic.

Their succession planning programme is a part of global talent management. The purpose of global talent management is to identify and develop high potential persons for their 'Corporate Executive Posts' which are of great importance to Panasonic's global strategy. The high-potentials are nominated based on performance appraisal and assessment of 'Panasonic Leadership Competency' which are rooted in their corporate philosophy. The high-potentials are grouped into three categories: HP1s, HP2s, and HP3s. HP1s are persons who are likely to be promoted to the Corporate Executive Posts within three years. HP2s are to be promoted within five years, while HP3s are future candidates for the posts. The total number of high-potentials is approximately one thousand worldwide and about 20% of them are now non-Japanese. Individual high-potentials are reviewed for replacement every year by the headquarters.

---

[3] This case study is based on longitudinal interview survey of Panasonic by one of the authors (Furusawa). Interviews were conducted nine times from 2004 to 2014. The informants were general managers or managers in charge of the global talent management of Panasonic at the global headquarters in Japan and the European headquarters in the UK.

The high-potentials are developed through both off-the-job training (Off-JT) and on-the-job training (OJT). For the Off-JT, Panasonic has a training programme called the 'Panasonic Executive Development Programme'. The annual programme lasts for half a year and about 50 managers from all over the world participate in it. The training content encompasses leadership development, decision management, business simulation, action learning, and so on. As for the OJT, diverse tasks are prepared following the principle of '2×2×2': the high-potentials are required to have work experience as a head of two business units, in two countries, and two functions before they can be promoted to the Corporate Executive Posts. Today, there are about twenty inpatriates working at the headquarters and trans-regional or trans-functional assignments are getting common as well. A manager in charge of global talent management in Panasonic proudly remarked, "such a globally-integrated HRM system has contributed to the improvement in attraction, motivation, and retention of capable non-Japanese human resources."

As a result of global talent management, the target of the Action Programme for Localisation has been achieved. Based on our analysis of 281 overseas subsidiaries of Panasonic in the *Kaigai Shinshutsu Kigyo Soran 2013*, it was found that the ratio of non-Japanese CEOs at their overseas subsidiaries is 31.0%. Remarkably enough, the number in Europe reaches 66.0% and more than half of the CEOs in North America are non-Japanese, though the ratios in the areas of developing countries are still low. Additionally, Panasonic has three non-Japanese management executives in corporate officer positions today.

The HRM of South Korean MNCs

HRM in the South Korea context

It is generally agreed that the rapid institutional change in relation to employment relations during the last decades might be a major characteristics of the HRM context of South Korea (Debroux et al., 2012). Bae (2012) argued that the evolution of Korean HRM practices can be viewed as an example of a 'self-fulfilling process at a global level' (p. 579) – a process of collective attempts to fulfil certain expectations with regard to effective HRM, shaped by various local and global influences such as democratisation in 1987 and Asian Financial Crisis in 1997.

Before 1987, the paternalistic HRM model was largely prevalent among Korean firms (Bae and Rowley, 2003). Heavily influenced by Japanese HRM practices and Confucian tradition, internal-labour-market orientation, long-term employment, and a seniority-based approach were the foundation of HRM practices to promote such values as harmony and loyalty in employment relations (Bae and Rowley, 2003). Mass recruitment targeting entry-level college graduates was the norm and employees were expected to work for a long time in a company (Debroux et al., 2012). In determining pay and promotion, seniority was a major consideration (Bae and Rowley, 2003). These practices seemed to work well in the fast-growing economy based on cost-based competition until the mid-1980s.

After the Democracy Declaration in 1987, labour costs of Korean firms have risen sharply mainly due to the strong labour movement triggered by the political democratisation in Korea (Bae, 2012). The traditional HRM practices began to be questioned by Korean firms as they were perceived as too rigid and inefficient to cope with the changing employment environment. Some Korean firms tried to adopt new HRM practices which emphasised individual performance and competency development (Bae, 1997). However, due to the influences of traditional values which still remained and the emergence of strongly organised labour unions, the adoption of the new practices seemed to be partial at best. According to a survey conducted in 1995, only 20% of sample firms introduced the new HRM practices (cited in Ahn, 1996).

The Asian financial crisis in 1997 could be considered as a major trigger for the dramatic changes in HRM practices of Korean firms (Debroux et al., 2012). After 1997, the traditional practices were blamed for causing the loss of competitiveness of Korean firms and the collapse of the national economy (Bae and Rowley, 2001). American firms' HRM practices, which are individual performance-based and more flexible to the changing conditions of labour markets, were introduced as 'global standards' and many Korean firms were pressured to adopt the new practices through normative, coercive and mimetic isomorphic mechanisms (DiMaggio and Powell, 1983; Kim and Bae, 2004). Mass redundancies, which had been illegal previously, were allowed and Korean firms sacked a huge number of employees during the economic crisis (Debroux et al., 2012). After 1997, more than 45% of Korean firms were reported to implement performance-based pay systems (cited in Chang, 2006). It should be noted that despite the seemingly huge changes in HRM practices in Korea since the Asian financial crisis, the actual degrees of implementation of the newly introduced practices varied considerably across companies and the changes are still in progress and are contested (Bae and Rowley, 2003).

HRM of Korean MNCs operating in Europe

Korean firms joined the third wave of MNC investment in European countries in the late 1980s, after the first and the second wave by US and Japanese firms, respectively (Glover and Wilkinson, 2007). However, they began to get actively involved in the internationalisation of their subsidiary HRM function from mid-2000, following the rapid increase of their overseas sales and workforce (Chung et al., 2012).

Hybridisation of global standardisation and localisation

A case study of major Korean MNCs reported that their approach to subsidiary HRM practices could be characterised as hybridisation, a blending of so-called 'global HRM standards' and local practices (Chung et al., 2014). Instead of imposing current parent practices to subsidiaries, the Korean MNCs tried to select the components of practices for global standardisation carefully based on relevant logics of action (e.g. sharing global corporate values, facilitating international transfer of employees etc.) and utilised so-called 'global HRM best practices', largely informed by major US firms, as a template for global standardisation of the selected components in subsidiary HRM practices. The use of benchmarking activities and multinational consultancies was the typical way of accessing 'global HRM best practices' (Chung et al., 2014). On a surface level, these firms seem to pursue a more 'idealistic' version of globalisation than their counterpart US and Japanese firms which tend to show rather ethnocentric approaches in subsidiary HRM practices (e.g. the transfer of parent practices in US MNCs) or subsidiary staffing (e.g. the heavy utilisation of expatriates for subsidiary key positions in Japanese MNCs).

Arguably, this more noticeable 'dominance effect' on subsidiary HRM practices of Korean MNCs could be explained by three factors (Chung et al., 2014). First, Korean firms may find it difficult to utilise parent practices for the management of subsidiary workforce, as there is a lack of mature home practices due to the rapidly changing and contested institutional environment in relation to HRM in Korea. Second, it was found that Korean managers in corporate headquarters perceived weak legitimacy in their managerial authority, as their firms are based in a non-dominant economy. Due to the perceived 'liability of origin' (Ramachandran and Pant, 2010) they might be reluctant to transfer their home practices to subsidiaries. Third, as a late-comer in the process of globalisation, they are able to access information with regard to the HRM practices of MNCs which experienced the globalisation of their HRM functions earlier through various available channels such as media, benchmarking activities and the use of international consultancies.

Tensions between espoused practices and informal ones

One of the notable observations regarding the implementation of the 'best practices'-based hybrid model (Chung et al., 2012) in Europe-based subsidiaries is the tension stemming from the gap between the espoused HRM practices and the informal ones (Glover and Wilkinson, 2007; Yang, 2014). While Korean MNCs' explicit HRM practices follow key features of 'global best practices', implicit practices which are rooted in their home country still remain (Yang, 2014). Some aspects of the implicit and informal practices (e.g. top-down oriented target setting, limited horizontal communication, hierarchical management styles) from Korea generate conflicts with local practices in subsidiaries in Europe (Glover and Wilkinson, 2007). In the home country those potentially problematic practices are compensated by a paternalistic management style based on personal care, informal ties and communication amongst managers and employees (Yang, 2014). Those moderating mechanisms, particularly between Korean expatriates (and managers in corporate headquarters) and local employees, might be lacking in subsidiaries in Europe. Thus local employees tended to be frustrated with inconsistent and mixed messages due to the discrepancy between formal and informal practices, and the lack of the moderating mechanisms (Glover and Wilkinson, 2007). In this regard, the actual implementation of the seemingly 'idealistic' globalisation of HRM in Korean MNCs could be restrained and compromised. Arguably, MNCs from emerging economies might experience similar challenges in the process of globalising their HRM practices.

Conclusion

MNCs try to manage the balance between the global integration and local responsiveness in various ways throughout their policies and practices in managing international workforces. A combination of multiple institutional influences such as country of origin, local and dominance effects the pattern of IHRM approaches adopted by an MNC. Intra-organisational factors including HRM related actors' capabilities, relationships among them and the arrangement of their involvement also play a crucial role in the actual design and implementation of policies and practices in a given context (Chung et al., 2012).

As one of 'the Triad' in the world economy, Europe has attracted a significant flow of FDI investments. When MNCs come to Europe, they show distinctive approaches to subsidiary HRM, largely originated from their home country, and more or less different challenges emerge as shown in the cases of US, Japanese, and Korean MNCs. The challenges include the adaptation to European institutional arrangements with regard to employment relations and employee involvement, the localisation in staffing of subsidiary key positions, and the management of

tensions stemming from the gap between espoused formal practices and informal practices embedded to a home country. Given the understanding of the challenges MNCs face and their responses, comprehensive and systematic examinations of the broader impact of foreign MNCs' HRM approaches on employment practices and outcomes in Europe will be crucial for future research.

Key learning points

- MNCs try to manage the pressures for global integration and local responsiveness in HRM when they expand their businesses abroad.

- The employment-related institutional contexts in a home and a host country as well as dominance effects from leading economies are the major external factors which shape subsidiary HRM practices and staffing approaches of MNCs.

- US MNCs tend to adopt global standardisation approach to subsidiary HRM practices, but utilise local human resources for subsidiary key positions.

- Japanese MNCs rely upon extensive expatriate networks for control and coordinate dispersed subsidiary operations but recently focusing on developing local talents and replacing expatriates with them.

- Korean MNCs opt to pursue the hybridisation of 'global HRM standards' and local practices, but they experience tensions stemming from the gap between the espoused practices and the informal practices rooted to the home country.

References

Ahn, H-T (1996) *The Current Situations and Future Directions of New Personnel Management Systems in Korean Firms,* Seoul: Korea Employers' Federation (in Korean).

Almond, P., Edwards, T., Colling, T., Ferner, A., Gunnigle, P., Müller-Camen, M., Quintanilla, J. and Wächter, H. (2005) 'Unraveling home and host country effects: an investigation of the HR policies of an American multinational in four European countries', *Industrial Relations: A Journal of Economy and Society*, 44, 2: 276–306.

Bae, J. (1997) 'Beyond seniority-based systems: A paradigm shift in Korean HRM?', *Asia Pacific Business Review*, 3, 4:82-110.

Bae, J. (2012) 'Self-fulfilling processes at a global level: The evolution of human resource management practices in Korea, 1987–2007', *Management Learning*, 43, 5:579-607.

Bae, J. and Rowley, C. (2003) 'Changes and continuities in South Korean HRM', *Asia Pacific Business Review*, 9, 4: 76-105.

Bae, J., and Rowley, C. (2001) 'The impact of globalization on HRM: the case of South Korea', *Journal of World Business*, 36, 4: 402-28.

Baron, J. N., Dobbin, F. R., and Jennings, P. D. (1986) 'War and peace: The evolution of modern personnel administration in US industry', *American Journal of Sociology*, 92, 2:350-383.

Bartlett, C. A. and Yoshihara, H. (1988) 'New challenges for Japanese multinationals: Is organization adaptation their Achilles heel?', *Human Resource Management*, 27, 1: 19-43.

Brewster, C. (1995) 'Towards a 'European' model of human resource management', *Journal of International Business Studies*, 26, 1:1-21.

Brewster, C., Sparrow, P.R., Vernon, C. and Houldsworth, L. (2011) *International Human Resource Management, Third Edition*, London: Chartered Institute of Personnel and Development.

Chang, E. (2006) 'Individual pay for performance and commitment HR practices in South Korea', *Journal of World Business*, 41, 4: 368-81.

Chung, C., Bozkurt, O., and Sparrow, P. (2012) 'Managing the duality of IHRM: Unravelling the strategy and perceptions of key actors in South Korean MNCs', *The International Journal of Human Resource Management*, 23, 11: 2333-53.

Chung, C., Sparrow, P. and Bozkurt, O. (2014) 'South Korean MNEs' international HRM approach: Hybridization of global standards and local practices', *Journal of World Business*, 49, 4:549-559.

Collings, D., Morley, M. and Gunnigle, P. (2008) 'Composing the top management team in the international subsidiary: Qualitative evidence on international staffing in US MNCs in the Republic of Ireland', *Journal of World Business*, 43, 2:197–212.

Debroux, P., Harry, W., Hayashi, S., Jason, H. H., Jackson, K. and Kiyomiya, T. (2012) 'Japan, Korea and Taiwan: issues and trends in human resource management', in C. Brewster and W.

Mayrhofer (eds.) *Handbook of Research on Comparative Human Resource Management*, pp. 620-64, Cheltenham: Edward Elgar.

DiMaggio, P. J. and Powell, W. W. (1983) 'The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields', *American Sociological Review*, 48, 2:147-160.

Edwards, R. (1979) *Contested Terrain: The Transformation of the Workplace in the Twentieth Century,* London: Heinemann.

Edwards, T., Edwards, P., Ferner, A., Marginson, P. and Tregaskis, O. (2010) 'Multinational companies and the diffusion of employment practices from outside the country of origin', *Management International Review*, 50, 5:613-634.

Evans, P., Pucik, V., and Björkman, I. (2011) *The Global Challenge: International Human Resource Management, Second Edition*, New York: McGraw Hill-Irwin.

Fernandez, J. P., and Barr, M. (1993) *The Diversity Advantage: How American Business Can Out-Perform Japanese and European Companies in the Global Marketplace*, New York: Lexington Books.

Ferner, A. (1997) 'Country of origin effects and HRM in multinational companies', *Human Resource Management Journal*, 7, 1:19-37.

Ferner, A., Almond, P. and Colling, T. (2005) 'Institutional theory and the cross-national transfer of employment policy: the case of 'workforce diversity' in US multinationals', *Journal of International Business Studies*, 36, 3:304-321.

Ferner, A., Almond, P., Clark, I., Colling, T., Edwards, T., Holden, L., and Muller-Camen, M. (2004) 'Dynamics of central control and subsidiary autonomy in the management of human resources: Case-study evidence from US MNCs in the UK', *Organization Studies*, 25, 3:363-391.

Ferner, A., Tregaskis, O., Edwards, P., Edwards, T., Marginson, P., Adam, D. and Meyer, M. (2011) 'HRM structures and subsidiary discretion in foreign multinationals in the UK', *The International Journal of Human Resource Management*, 22, 3:483-509.

Furusawa, M. (2008) *Global Jintekishigen Kanriron (The Theory of Global Human Resource Management)*, Tokyo: Hakutou Shobou (in Japanese).

Furusawa, M. (2014) 'Global talent management in Japanese multinational companies: The case of Nissan Motor Company', in A. Al Ariss (ed.) *Global Talent Management: Challenges, Strategies, and Opportunities*, pp.159-170, Heidelberg: Springer.

Gaur, A. S., Delios, A. and Singh, K. (2007) 'Institutional environments, staffing strategies, and subsidiary performance', *Journal of Management*, 33, 4:611-636.

Geppert, M. and Williams, K. (2006) 'Global, national and local practices in multinational corporations: towards a sociopolitical framework', *The International Journal of Human Resource Management*, 17, 1:49-69.

Glover, L. and Wilkinson, A. (2007) 'Worlds colliding: The translation of modern management practices within a UK based subsidiary of a Korean-owned MNC', *The International Journal of Human Resource Management*, 18, 8:1437-1455.

Gong, Y. (2003) 'Subsidiary staffing in multinational enterprises: agency, resources, and performance', *Academy of Management Journal*, 46, 6:728-739.

Guest, D. E. (1987) 'Human resource management and industrial relations', *Journal of Management Studies*, 24, 5:503-521.

Guest, D. E. (1990) 'Human resource management and the American dream', *Journal of Management Studies*, 27, 4:377-397.

Hall, E. T. (1976) *Beyond Culture*, Garden City, New York: Doubleday and Company.

Hall, P. A. and Soskice, D. (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantag*e, Oxford: Oxford University Press.

Harzing, A. W. (1999) *Managing the Multinationals: An International Study of Control Mechanisms,* Cheltenham: Edward Elgar.

Harzing, A. W. (2001) 'Who's in charge? An empirical study of executive staffing practices in foreign subsidiaries', *Human Resource Management*, 40, 2: 139-158.

Hayashi, K. (1994) *Ibunka Interface Keiei (Cross Cultural Interface Corporate Management)*, Tokyo: Nihonkeizaishinbun Shuppansha (in Japanese).

Ishida, H. (1999) *Kokusai Keiei to White-Collar (International Management and White-Collar Employees)*. Tokyo: Chuuou Keizaisha (in Japanese).

Jacoby, S. M. (1985) *Employing Bureaucracy: Managers, Unions, and the Transformation of Work in American Industry, 1900-1945,* New York: Columbia University Press.

Japan Overseas Enterprises Association (2012) *Kaigaigenchihoujin No Keiei No Global-Ka Ni Kansuru Ankeitochousa Kekka Houkoku Ni Tsuite (The Report of Questionnaire Survey of Globalization of Management in Overseas Subsidiaries)*, Tokyo: Japan Overseas Enterprises Association (in Japanese).

JETRO (2003) *Zai-Oushuu ·Toruko Nikkeiseizougyou No Keieijittai: 2002-nendo Chousa (2002 Survey of Management in Japanese-Affiliated Manufacturing Companies in Europe and Turkey,* Tokyo: JETRO (in Japanese).

JETRO (2004) *Oushuu Ni Okeru Nikkeikigyou No Soshiki, Location Senryaku No Hensen To Mitooshi (Transition and Prospect of Organisation and Location Strategy in Japanese-Affiliated Companies in Europe),* Tokyo: JETRO (in Japanese).

Keeley, T.D. (2001) *International Human Resource Management in Japanese Firms: Their Greatest Challenge*, New York: Palgrave Macmillan.

Kim, D. and Bae, J. (2004) *Employment Relations and HRM in South Korea*, Farnham: Ashgate.

Kopp, R. (1994) 'International human resource policies and practices in Japanese, European, and United States multinationals', *Human Resource Management*, 33, 4: 581-599.

Kopp, R. (1999) 'The rice-paper ceiling in Japanese companies: Why it exists and persists', in S. L. Beechler and A. Bird (eds.) *Japanese Multinationals Abroad: Individual and Organizational Learning*, pp. 107-128, New York, Oxford: Oxford University Press.

Lawrence, P. (1996) *Management in the USA*, London: Sage.

Marginson, P., Hall, M., Hoffmann, A. and Müller, T. (2004) 'The impact of European works councils on management decision-making in UK and US-based multinationals: A case study comparison', *British Journal of Industrial Relations*, 42, 2:209-233.

Parry, E. Dickmann, M. and Morley, M. (2008) 'North American MNCs and their HR policies in liberal and coordinated market economies', *The International Journal of Human Resource Management*, 19, 11:2024-2040.

Pudelko, M., and Harzing, A.-W. (2007) 'Country-of-origin, localization, or dominance effect? An empirical investigation of HRM practices in foreign subsidiaries', *Human Resource Management*, 46, 4:535–559.

Ramachandran, J. and Pant, A. (2010) 'The liabilities of origin: An emerging economy perspective on the costs of doing business abroad', in D. Timothy, P. Torben and T. Laszlo (eds.), *The Past, Present and Future of International Business & Management, Advances in International Management*, Vol. 23, pp. 231-265, Bingley: Emerald Group Publishing.

Rosenzweig, P.M. (2006) 'The dual logics behind international human resource management: pressures for global integration and local responsiveness', in G.K. Stahl and I. Björkman (eds.), *Handbook of Research in International Human Resource Management*, pp. 36–48, Cheltenham: Edward Elgar.

Rosenzweig, P.M. and Nohria, N. (1994) 'Influences on human resource management practices in multinational corporations', *Journal of International Business Studies*, 25, 2:229–251.

Scullion, H. and Brewster, C. (2002) 'The management of expatriates: messages from Europe?', *Journal of World Business*, 36, 4:346-365.

Tempel, A., Edwards, T., Ferner, A., Muller-Camen, M. and Wächter, H. (2006) 'Subsidiary responses to institutional duality: Collective representation practices of US multinationals in Britain and Germany', *Human Relations*, 59, 11: 1543-1570.

Tian, X., Harvey, M. and Slocum, J. W. (2014) 'The retention of Chinese managers: The Chinese puzzle box', *Organizational Dynamics*, 43, 1:44-52.

Toyo Keizai Shinposha (2013) *Kaigai Shinshutsu Kigyo Soran 2013 (Directory of Japanese Companies Abroad, 2013)*, Tokyo: Toyo Keizai Shinposha (in Japanese).

UNCTAD (2014) *World Investment Report 2014: Investing in the SDGS – an Action Plan*, New York and Geneva: United Nations Publication.

Yang, I. (in press, 2014) 'Cross-cultural perceptions of clan control in Korean multinational companies: a conceptual investigation of employees' fairness monitoring based on cultural values', *The International Journal of Human Resource Management*, DOI:10.1080/09585192.2014.922600.

Yasumuro, K. (1982) *Kokusai Keiei Koudouron (The Theory of International Management Behavior)*. Tokyo: Moriyama Shoten (in Japanese).

Yoshihara, H. (1989) *Genchijinshachou To Uchinaru Kokusaika (Host Country National Presidents and Internal Internationalization)*, Tokyo: Toyo Keizai Shinposha (in Japanese).

Yoshihara, H. (2008) 'Belated change in international management of Japanese multinationals', *Rikkyo Business Review*, 1: 4-15.

Yoshino, M. Y. (1976) *Japan's Multinational Enterprises*, Cambridge, MS: Harvard University Press.