Similarities of Human Resource Management Systems between Taiwanese MNC Headquarters and Subsidiaries in China

Hsi-An Shih and Yun-Hwa Chiang

a Institute of International Business, National Cheng Kung University
b Department of Business Administration, Ming-Chuan University

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Abstract

This study explores the factors that influence the design and execution of MNCs’ HRM systems in their overseas subsidiaries. Through in-depth interviews with multiple managers from four Taiwanese MNCs, this study compares the HRM similarities between MNC headquarters and their overseas subsidiaries in China. We found MNCs’ control systems, degree of internationalization and their strategic international human resource management (SIHRM) orientation significantly affect the design of subsidiary firms’ HRM systems. When the MNC has high degree of internationalization, when it utilizes output control system, and when it adopts “adaptive” SIHRM orientation, HRM systems in subsidiaries adjust to local demands and exhibit large differences compared to that of the HQs’. If the MNC has low degree of internationalization, when it utilizes input, behavior control system, and when it adopts integrative or exportive SIHRM orientation, HRM systems in subsidiary firms exhibit high similarities to that of the HQs’.

Keywords: Strategic international human resource management; Similarities of HRM practices; Multinational company

1. Introduction

Multinational Corporations (MNCs) and their overseas subsidiaries have become increasingly important players in the global economy. This has attracted much research interest in exploring their strategies and management (Hamel & Prahalad, 1990; Ohmae, 1990; Porter, 1986; Rosenzweig & Singh, 1991). In order to create value for the firm, the management practices of global firms should be constructed around specific organizational competencies that are critical for securing competitive advantage in a global environment (Pucik, et al., 1992). From a “resource-based perspective”, MNCs’ management should be focused on maintaining resources that are valuable, rare, imperfectly mobile, and inimitable (Barney, 1991; Conner, 1991). Among these “rare and valuable resources”, corporate human resource has been specifically mentioned as contributing to sustained competitive advantage in that it can facilitate the development of competencies that are firm specific, produce complex social relationships, and generates tacit organizational knowledge (Lado & Wilson, 1994).

The human resource function is unique because both the outputs (the employee behaviors) of the system and the system itself are potential sources of competence (Taylor et al., 1996). Efforts in leveraging corporate human resources to implement the intended strategies of organizations to acquire competitive advantages are classified as SHRM (Strategic Human Resource Management) (Devanna, Fombrun & Tichy, 1984). The term SIHRM (Strategic International Human Resource Management) is coined to refer to the human resource management (HRM) practices that result from the strategic activities of multinational enterprises which impact the international concern and goals of MNCs (Schuler et al., 1993).

One of the most mentioned research topics in international HRM is the similarities of HRM practices between MNC’s headquarters (HQs) and foreign subsidiaries (Rosenzweig & Nohria, 1994). It is no surprise that such topic deserves research attention when considering that HRM practices in MNCs’ subsidiaries are subjected to distinct pressures for global efficiency and for local responsiveness (Doz, Barlett & Prahalad, 1981; Prahalad & Doz, 1987). Similarities of HRM practices between MNC subsidiaries and HQs are the results shaped by the interplay of opposing pressures for internal consistency and for isomorphism with the local institutional environments, with specific practices shaped by those opposing pressures to varying degrees (Rosenzweig & Singh 1991; Dowling et al., 1999). In order to obtain competitive advantage, MNCs should carefully design their HRM systems to achieve optimal balance in the resemblance of HRM practices between subsidiaries and HQs.

Although the design of MNC’s HRM systems is crucial for the success of these firms, limited empirical evidence is available to shed light on the appropriate way to accomplish this. Furthermore, the available research focuses only on individual HR practices between HQs and subsidiaries, overlooking the possibility of examining this issue from a system perspective. This study tries to explore this issue from the concept of fit from the SHRM perspec-
tive. We think the adoption of a holistic viewpoint should give us more understanding about the relationships of HRM systems between subsidiaries within an MNC.

Meanwhile, Taiwanese MNCs’ operations in China have become an important issue because these subsidiaries’ operations constitute a substantial share in Taiwanese MNCs’ annual operating income and profits (Jaw, 2000). The arrangement of their subsidiary’s HRM systems, therefore, becomes a key issue that can impact the competitiveness of Taiwanese MNCs in the long run. Four Taiwanese MNCs and their Chinese subsidiaries, hence, were employed as our research target to explore the issue of HR similarities between HQs and corresponding subsidiaries. As few previous studies has been done on Taiwanese firms on this topic, we think multiple case studies focusing on a small number of firms is effective method to acquire deeper insight to the theme we want to explore further in the future (Shih & Chiang, 2003).

In the following paragraphs, we will provide a brief sketch of the literature related to the design of HRM systems between MNC HQs and subsidiaries. Then, following the suggestions of Yin (1994), we propose a framework linking the key constructs of interests in our research exploration, depicting several key methodological issues, including data collection and interview results. Finally, we conclude with a series of propositions linking issues of internationalization, control mechanisms, and evolution of MNC subsidiaries’ HRM design. Limitations of our study and suggestions for future research are discussed in the last section.

2. Literature Review

2.1 The Concept of Fit

In order to pursue organizational goals, company’s HRM systems need to acquire fit among various inter-company HR practices (such as: selection, training, performance evaluation, and compensations, etc.), as well as fit between HRM practices with environmental conditions (Lengnick-Hall & Lengnick-Hall, 1988). The former is called internal fit and the later external fit (Baird & Meshoulam, 1988)

Lawrence and Lorsch (1967) argue for a balance between differentiation and integration of internal organizational components. Since various HR practices can motivate or influence different employee’s behavior, ability, and attitude, the alignment between those practices should be carefully arranged. The available empirical studies support that assertion and found that better firm performance can be achieved from the consistency among those components (Baird & Meshoulam, 1988).

When applying the concept of external fit onto the filed of HRM, scholars argue that company’s HRM system should fit with the developmental stages of the organization, strategy, structure, and culture (Fombrun et al., 1984; Othman, 2002). In the context of international operations, it seems to suggest that MNCs need to integrate various operations to enhance effectiveness (Schuler et al., 1993). The operations of various business units in separate regions need to be coordinated to take advantages of the synergies of co-operations. The result of this arrangement contributes to similarities in HRM systems between subsidiaries and HQs. On the other hand, when faced with turbulent environments, MNCs should grant subsidiaries adequate operational flexibilities to cope with environmental demands. Each operating unit needs to be given the autonomy to make their best decisions. With increased level of globalization, subsidiaries of MNCs experience increased need for flexibility (Milliman et al., 1991). This will reduce the similarities in HRM systems between subsidiaries and HQs.

Although theories indicate that fit among organizational units as well as fit with environmental conditions should influence the design of MNC subsidiaries’ HRM system, we find scant empirical proof validating such concept. Furthermore, existing literature on this topic tends to concentrate on individual HR practice (e.g., Rosenthein, 1994) and neglect to explore from a systemic approach. This may hinder our understandings on subsidiary’s HRM design from a holistic perspective.

Based on the above, our purpose is to explore the issue of similarities of HRM systems between MNC HQs and its subsidiaries from the perspective of internal and external fit with a holistic approach. In this study, we follow the conventional way in examining companies’ HR practices and look into separate aspects of a firm’s employee management system including: selection & recruiting, training & development, job design/description, and performance evaluation methods. We set a continuum in each of these aspects with one end representing high resemblance of subsidiary’s HRM system to that of the HQs and the other end representing low resemblance. For instance, in terms of employee selection and recruiting, a low similarity of HRM systems will be featured by employee selection based on HQs’ executives’ decisions as well as the existence of a considerable amount of expatriate managers form the HQs. High similarity in HRM system will be featured by employee selection based on HQs’ executives’ decisions as well as the existence of few expatriate managers form the HQs. In training and development, high HRM similarity will feature (1) the decision concerning the contents of training projects held in the hands of HQs executives, (2) the execution of training plans by HQs, and (3) subsidiary managers are called to HQs to receive training programs. Low HRM similarity will be featured by characteristics positioned on the other end of such continuum.

In terms of job design and descriptions, high HRM similarity refers to job descriptions strictly follow those set by the HQs while low similarity occupies the other end.
Finally, in performance evaluation, high HRM similarity exhibits few performance-based evaluations. This kind of evaluation is often used as a means to motivate workers and must adjust to reflect local conditions. In these four captioned aspects, the more items in which we find a company locates on the “high similarity” end, the higher we shall define its extent of subsidiary-HQs’ HRM similarity.

3. Methodology

In this study, we intend to explore HQs-subsidiary HRM similarities from the concept of internal and external fit. To implement such an exploratory study, we employed case analyses of four Taiwanese MNCs who have subsidiaries in China. Although adopting a multiple-case design would require more research resources, as opposed to a single-case design, it can generate more compelling evidence with more robust outcomes (Yin, 2003: 46). Meanwhile, since the issues we are going to explore involve multi-level phenomena, the unit of analysis shall cover both the parent firm and the subsidiary. Following a replication logic in selecting cases for the study (Yin, 2003: 48), we employ an analytic induction approach to build explanations over the phenomena we observe by stipulating a set of causal linkages among our research constructs (Yin, 2003: 212). Based on a series of iterated comparisons between existing theoretical views and case evidences, we then drew several propositions and conclude in a refined framework of similarities of HRM systems between HQs and subsidiaries. Then, we will explain in more detail about some of the critical elements of our research design in the following sections.

3.1 Case selection

In recent years, China has become one of main economic forces around the world. The business activities in China, therefore, have been enthusiastically studied (Luo & Peng, 1999). According to Taiwan’s Mainland Affairs Council (MAC), Taiwan is among the five major investing countries in China and China has become a major area of overseas investments for Taiwanese enterprises. Studying Taiwanese MNCs’ investment activities in China is important for understanding these companies’ global strategies. Therefore, our target in this study aims at Taiwanese MNCs with subsidiaries in China.

According to data published by MAC, the most important five Taiwanese industries investing in China in 1998-2002 are Electronic and Electric Appliances, Chemicals and Plastic Products, Basic Metals and Metal Products, Precision Instruments, and Transport Equipment industries. Taiwanese MNCs in those five industries were contacted to inquire their willingness to participate in this research. “Survey of Taiwanese Conglomerates, 2000 edition” published by China Credit Information Service Company was used to locate contact information.

### Table 1. Company Profile of Interviewed Companies

<table>
<thead>
<tr>
<th>Conglomerate</th>
<th>Time established</th>
<th>Scope of Operation</th>
<th>Areas of Subsidiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1963</td>
<td>Manufacturing, information industry, retailing</td>
<td>Taiwan, China, Singapore, Thailand, United States</td>
</tr>
<tr>
<td>B</td>
<td>1953</td>
<td>Manufacturing, Construction, Hi-technologies</td>
<td>Taiwan, Philippines, Malaysia, China, United States, Canada</td>
</tr>
<tr>
<td>C</td>
<td>1979</td>
<td>Electronic machinery manufacturing</td>
<td>United States, France, Japan, China</td>
</tr>
<tr>
<td>D</td>
<td>1986</td>
<td>Mother-Board, Electronic components</td>
<td>United States, Holland, Australia, Japan, Germany, France, China</td>
</tr>
</tbody>
</table>

Following the replication logic in selecting multiple-case studies, after analyzing the first company, three or more firms are studied in which only administrative applications are present (Yin, 2003). We expand the number of companies we interviewed until a scheme of managerial significance can be identified. The final number of companies surveyed comes to four. Since their lines of business are among the most heavily invested industries in China, we think studying these Taiwanese MNCs bear adequate significance. Detailed information of these four enterprises is summarized in Table 1.

At least two managers from each of these MNCs are interviewed. They include one high level executive responsible for their firm’s investments in China, and at least another HR manager stationed in China who handles Chinese subsidiary’s daily operations. This multi respondents’ strategy is quite important to gather more full-scale information of the research issues in the firms and is strongly suggested by scholars (Wright, Dunford, & Snell, 2001; Wright & Boswell, 2002). We interviewed this expatriate HR manager whenever he came back to Taiwan. Face-to-face interviews are conducted followed by telephone interviews to clarify for further information. At least four interviews are conducted for each of these Taiwanese MNCs. Each interview section lasted for about two hours. Similar interview questions were asked to these informants; however, to the expatriate HR manager in China, interview contents tend to focus on HR strategies and practices. To the high level executive responsible for China’s investments, interview contents focused on company’s strategies. The information collected from informants of the same company is cross-examined to verify for their validity and eliminate biases from different interviewees.

3.2 Data Collection

Data of these four MNCs are collected from multiple sources (Yin, 2003). In addition to information collected from multiple in-depth interviews, we consulted compa-
After interviews of each company were completed, data were first written into summarized reports and mailed to the informants to check for content adequacy. Other external reviewers’ opinions were consulted to ensure the quality of our data collection process before the final version of each company’s report was completed. Cross-company analysis was compiled based on these final reports. Upon the request of informants to protect their firm’s information secrecy, this study does not reveal the result of any single firm’s conditions but only cross-company comparisons.

4. Results and Propositions

In the following paragraphs, we summarize our interview findings and compare them with existing theoretical arguments concerning the relevant issues. When deviations between findings and previous theoretical works are found, we modify our conceptual scheme to accommodate explanations of the new findings. We repeat this process based on the explanation-building type of analytic strategy proposed by Yin (2003), and report only the final revision of our model presented in Figure 1.

4.1 Internal Fit

Internal fit refers to how company’s HRM practices systematically complement each other to facilitate the attainment of organizational goals (Delery, 1998). Our findings indicate that Taiwanese MNCs coordinate the HRM activities of their foreign subsidiaries through control mechanisms in achieving internal consistency of strategic objectives. These control mechanisms are elaborate in the following paragraphs.

4.2 The Influence of Control System

Snell (1992) identified three types of control mechanisms: input control, behavior control and output control. Although Snell’s research was not aimed at studying foreign subsidiaries, our interview results indicate that Taiwanese MNCs adopt somewhat similar control mechanisms to manage their China subsidiaries. We therefore report our findings from the perspective of these three control mechanisms.

In terms of input control, although conglomerate A has consistent employee selection standards between HQs and subsidiaries, the inclination of local discretion is obvious. Over half of high-level managers in conglomerate A’s overseas subsidiaries in China are local natives. Very few executives are expatriated from Taiwan. Local managers also make human resource decisions as well as decisions in operating strategies. Conglomerate B set strict and specific standards in selecting technical personnel. High-level managers’ assignments are decided by HQs. If subsidiary wants to promote local native managers, such decision have to be approved by high-level executives expatriated from Taiwan. Conglomerate C has many expatriate managers stationed in China; however, their numbers are declining each year. HQs in conglomerate C is not extensively involved in decisions concerning the selection and promotion of local managers. Local subsidiary’s executives can make most of these decisions without further approval from Taiwan. High level managers of conglomerate D’s subsidiaries in China are all expatriated from Taiwan. These expatriate managers make employment decisions concerning local employees; however, HQs still hold the rights of making final decisions.

In terms of employee training, conglomerate A has a “Management Center” set in China, responsible for developing training plans. Training activities are executed by Taiwanese expatriate managers. Conglomerate B exports whole sets of training programs from Taiwan. Lecturers are sent directly from HQs to local subsidiaries and some subsidiary workers are summoned in HQs to receive advanced trainings. Conglomerate C’s HQs are responsible for providing training material. Detailed training plans and execution are carried out by local subsidiary managers. Conglomerate D assigns Taiwan’s expatriate managers to execute training activities. Some local R&D personnel are called back to HQs to receive advanced trainings.

In terms of behavior control, although conglomerate A and C have consistent job descriptions and work manuals between subsidiaries and HQs, discretion is granted to subsidiaries to adjust to local conditions. Conglomerate B composed consistent job descriptions between subsidiaries and HQs; HQs strictly require subsidiaries to abide to these rules. Conglomerate D comprise standardized procedures on production line and required employee behavior and work procedures to follow such standards.

In terms of output control, both conglomerate A and C integrate their MBO (management by objectives) plans with performance evaluations; they design performance-based pay according to local salary levels. Conglomerate B do not closely connect MBO with performance evaluation and seldom adopt performance-based compensation. Conglomerate D do not have MBO plan but do connect job evaluations with compensations. Results of performance evaluation are important figures in calculating bonus and in making promotion decisions.
Generally speaking, our findings show that conglomerate B’s control over their China’s subsidiaries is the highest of all four MNCs studied in terms of input and behavior control in this research. They also exhibit the highest HRM similarities between HQs and subsidiaries. On the other hand, subsidiaries in conglomerate A enjoy higher discretion. These subsidiaries exhibit large HQs-subsidiary HRM differences. Conglomerates C and D go in between these two extremes.

The above findings lead us to put control system as a significant element influencing HRM similarities between MNC HQs and subsidiaries. In Snell’s classification of HRM control system, “input control” refers to employee’s socialization process. Through selection and training practices, firms can internalize employee’s value and attitude to fit with organizational culture. “Behavior control” refers to the standardized operating procedures to help employees complete their jobs. Management assures the accomplishment of organizational objectives through supervision and performance evaluation. “Output control” refers to motivating employees by designing compensations contingent on performance results.

Extending Snell’s theoretical perspective onto the realm of International HRM, we think MNCs can select their subsidiaries’ managers based on parent firm’s standards, or require their subsidiary managers’ personal characters cope with parent firm’s culture and value systems. In considering the external labor market conditions of each host country, MNCs can establish concrete and measurable output standards to link performance with compensations to accomplish control. All three modes of control have been used by MNCs in managing their subsidiaries (Baliga & Jaeger, 1984). Our findings demonstrate that they bring different results to the HRM similarities between HQs and subsidiaries.

Through input control, i.e., HQs control the selection and training activities of subsidiary personnel, MNCs can promote agreement and integration of their company’s global HRM systems (Evans & Lorange, 1989). Through training process, HQs familiarize subsidiary managers with corporate culture and value system. This, in turn, nurtures subsidiary managers’ parent-firm perspective (Ouchi, 1979; Puick & Katz, 1986).

Behavior control involves standardized operating procedures, bureaucratic report systems, and formal evaluation processes (Yasukata, & Kobayashi, 2002). Centralized MNCs usually use those measures to reinforce HQs’ control toward subsidiaries (Pucik & Katz, 1986; Martineze & Jarillo, 1991).

Output control emphasizes performance results instead of employee behavior and value system. In order to effectively motivate employees in subsidiary firms, MNCs

<table>
<thead>
<tr>
<th>Conglomerate</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRM similarity between HQs and subsidiaries</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Input Control</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Selection</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Selection Standard</td>
<td>Localized</td>
<td>Decided by HQs</td>
<td>Localized</td>
<td>Decided by HQs</td>
</tr>
<tr>
<td>Expatriate managers from HQs</td>
<td>Few</td>
<td>Many</td>
<td>Decreasing per year</td>
<td>Moderate to many</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Training and Development</th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Training Plan</td>
<td>Set by HQs</td>
<td>Set by HQs</td>
<td>HQs only provide contents</td>
<td>Set by HQs</td>
</tr>
<tr>
<td>Execution</td>
<td>by Expatriate</td>
<td>Controlled by HQs</td>
<td>Local Subsidiary</td>
<td>by Expatriate Manager</td>
</tr>
<tr>
<td>Receive training at HQs</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Behavior Control</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Description</td>
<td>adjusted according to local standards</td>
<td>accord with that of HQs’</td>
<td>adjusted according to local standards</td>
<td>accord with that of HQs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Output Control</th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Evaluation</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

| Performance Pay | Yes | No | Yes | Yes |

**Table 2. Control Mechanism and HRM Similarities between HQs and Subsidiaries in Four Taiwanese Conglomerates**
adjust their compensations based on performance results to reflect the customs of local market. This arrangement contributes to the localized HR practices. Base on our findings stated above, we provide the following proposition:

Proposition 1. The MNCs who emphasize both input and behavior control will tend to have higher HRM similarities between MNC HQs and their subsidiaries. Meanwhile, the MNCs who emphasize output control will tend to have lower HRM similarities between MNC HQs and their subsidiaries.

4.3 External Fit

External fit concerns the alignment between HRM practices with environmental conditions (Lengnick-Hall & Lengnick-Hall, 1988). Evolution of company’s HRM system must cope with the developmental stages of the organization (Baird & Meshoulam, 1988). Through our interviews concerning the developmental stages of Taiwanese MNC’s China subsidiaries, we find two factors influencing MNC’s HQs-subsidiary HRM similarity. One is the MNC’s degree of internationalization and the other is their HRM strategic orientation.

4.4 Degree of Internationalization

In order to objectively verify the degree of internationalization of those sample firms, we collect multiple secondary data from published records. We measure MNC’s degree of internationalization from three dimensions: international structure, dispersion of international markets, and international experience (Sullivan, 1994). International structure is calculated by the ratio of assets owned by foreign subsidiaries over the assets of the entire company (Dansis & Bracker, 1989). In this respect, conglomerate A has the highest ratio (which reaches 86.9%), followed by conglomerate C (75%), conglomerate D(11.4%), and conglomerate B(4.5%).

Dispersion of international markets is measured by the number of countries in the MNC’s international markets and geographical dispersion of the MNC’s international operation (Kutschker & Baure, 1997). Subsidiaries of conglomerate A locate in five countries: Taiwan, China, Singapore, Thailand, and the United States. They disperse in two geographic areas: Asia and North America. Subsidiaries of conglomerate B locate in six countries: Taiwan, the Philippines, Malaysia, China, the United States, and Canada. They disperse in two geographic areas: Asia and North America. Subsidiaries of conglomerate C locate in four countries: the United States, France, Japan, and China. They disperse in three geographic areas: Asia, Europe, and America. Subsidiaries of conglomerate D locate in seven countries: the United States, Holland, Australia, Japan, Germany, France, and China. They disperse in four geographic areas: Asia, Oceania, Europe, and America.


Summarizing our findings, we found conglomerate A and C have higher degree of internationalization. The assets owned by these conglomerates in their overseas subsidiaries exceed 75% of the assets owned by the entire company. Conglomerate A and C also have more years of experience in conducting international operations. Conglomerate B and D have lower level of internationalization. Although these conglomerates have overseas operations spread in many countries, these overseas operations do not take up an important percentage compared to the operations of the entire enterprise. These conglomerates also have shorter experiences in conducting international business.

Our data shows that Conglomerate A and C have higher degree of internationalization; they also exhibit lower level of HQs-subsidiary HRM similarity. Conglomerate B and D have lower degree of internationalization; they exhibit higher level of HQs-subsidiary HRM similarity. This finding tends to support previous scholars’ assertion that degree of MNC’s internationalization affects the design of HRM systems in subsidiary firms (Bartlett & Ghoshal, 1989; Dowling, 1989; Rosenzweig & Nohria, 1994). These scholars indicate that, in the early stages of internationalization, MNCs tend to duplicate HQs’ HRM systems to quickly establish management control. It helps the MNC to cope with foreign environments (Dowling et al., 1999). As the company accumulates in terms of international experience and face increasingly complex global operating environments, MNCs tend to allow its foreign subsidiaries to modify their HRM systems to adapt to local countries’ demands. This will lead to decreased HRM similarities between parent and subsidiary firms (Franko, 1976; Bartlett & Ghoshal, 1989; Dowling, 1989; Rosenzweig & Nohria, 1994).

Based on the above, we think our case evidence leads us to put degree of internationalization as a significant element influencing the similarities between MNC HQs and subsidiaries. Our findings thus generate the following proposition:

Proposition 2. As the MNC accumulates international experience and face increasingly complex global operating environments, MNC’s HRM similarities between parent and subsidiary firms will decrease.

4.5 Orientation of Strategic International Human Resource Management

MNC’s SIHRM orientation refers to the general philosophy or approach taken by the MNC’s high-Level ex-
ectives in the design of its overall IHRM system (Taylor et al., 1996). Such approach determines how the MNC manage its overseas affiliate’s HRM system to solve the tension between integration and differentiation.

Based on previous scholars’ assertions, we measure SIHRM orientation from MNC’s global strategy and corporate executive’s attitude (Taylor et al., 1996; Janssens, 2001). Following Porter (1986)’s classification of generic MNC strategies as “multidomestic” and “global”, we interviewed our informant managers and asked them to identify their company’s strategic orientation as well as executives’ management attitude. Multidomestic strategy refers to the management approach in which the MNE manages its overseas affiliates as independent businesses, where the activities of one overseas affiliate do not affect the activities of another affiliate. Global strategy refers to managing overseas affiliates as interdependent businesses and involves high level of coordination and control of activities across all the MNE’s overseas branch offices (Taylor et al., 1996). Executives’ attitude refers to the belief that the firm’s way of managing its employees provides an advantage over its competitors. We found subsidiaries in conglomerate A operate rather independently. High-level managers in each subsidiary decide their own operating strategy and management practices without further approval from the HQs. Each subsidiary also prepares their own financial statements; Taiwan’s HQs gives subsidiaries much autonomy in making their best decisions. We therefore classify conglomerate A’s SIHRM orientation as “adaptive”.

Subsidiaries in conglomerate B integrate closely with their HQs. When Taiwan’s HQs decide to invest in China, all the subsidiaries in conglomerate B take coordinated actions to comply. The management of conglomerate B believes there is no big difference in culture and value systems between Taiwanese and Chinese workers. Management practices adopted in Taiwan can be transplanted to China without significant changes. Therefore, we classify conglomerate B’s SIHRM orientation as “exportive”.

Subsidiaries in conglomerate C operate independently; management practices in each subsidiary adjust to local country’s condition, laws, and customs. Executives in conglomerate C have much experience in international operations. They respect local environmental differences and grant much discretion to subsidiary’s managers. Only a small portion of important management decisions has to go through final approval by Taiwan’s HQs. Hence, we classify conglomerate C’s SIHRM orientation as “adaptive”.

Conglomerate D’s HQs give their subsidiaries autonomy in making best operating decisions. Each subsidiary can make adjustments in their own HRM policies. Conglomerate D take the “best practice” approach in transplanting management systems. If one management practice is carried out successfully in one subsidiary, such practice may be introduced into other subsidiaries. We classify conglomerate D’s SIHRM orientation as somewhere between “integrative” and “adaptive” type.

Scholars assert that SIHRM orientation may affect the designs and executions of their subsidiaries’ HRM systems (Sheth & Esghii, 1989). According to Taylor et al. (1996), a firm’s SIHRM orientation can be classified into three types: adaptive, exportive, and integrative. Our findings preliminary validate the existence of this concept in our sample firms. Furthermore, our investigation shows that MNC’s SIHRM orientation influence the arrangement of HRM systems in its subsidiaries. When the MNC takes an “exportive” SIHRM orientation, HRM similarities between HQs and subsidiaries tend to be high. If the MNC adopts “adaptive” SIHRM orientation, the HRM practices will reflect local environmental conditions and exhibit low HRM similarities between HQs and subsidiaries. The above findings, therefore, lead us to put MNC’s SIHRM orientation as a significant element in influencing the HRM similarities between MNC HQs and subsidiaries.

MNCs adopting exportive SIHRM orientation tend to transplant parent company’s HRM systems to overseas subsidiaries to match with the requirement of integration between HQs and subsidiaries (Taylor et al., 1996). The similarity in parent and subsidiary’s HRM systems therefore tends to be high in exportive orientation. MNCs adopting adaptive SIHRM orientation, on the other hand, emphasize adaptation of foreign subsidiaries to local environments. Hence, they rarely transplant parent company’s HRM philosophy, policy, or practices directly to overseas subsidiaries. It is naturally to find out that similarity in parent and subsidiary’s HRM systems in adaptive MNCs is low. MNCs that adopt integrative orientation aim to combine the characteristics of parent and subsidiary’s management systems, look for the most advantageous practices, and extend such practice onto other operating units within the firm. Under that requirement, HRM policy and practices may transfer in both directions between HQs and overseas subsidiaries. Therefore, similarity in HRM practices between parent and subsidiaries also tend to be high in MNCs adopting integrative orientation.

Based on the above, we think our findings lead us to put MNC’s SIHRM orientation as a significant element influencing the similarities between MNC HQs and subsidiaries. Our findings thus generate the following proposition:

**Proposition 3.** MNCs adopting an exportive SIHRM orientation will exhibit high similarities in HRM systems between HQs and subsidiaries.

**Proposition 4.** MNCs adopting an adaptive SIHRM orientation will exhibit low similarities in HRM systems between HQs and subsidiaries.
Proposition 5. MNCs adopting an integrative SIHRM orientation will exhibit high similarities in HRM systems between HQs and subsidiaries.

5. Conclusion and Discussion

This study tries to explore the factors influencing the design and execution of MNCs‘ HRM systems in their overseas subsidiaries. Through multiple interviews with managers from four Taiwanese MNCs, we found MNCs‘ control systems, degree of internationalization and their SIHRM orientation affect the design of subsidiary’s HRM systems. When the MNC focuses on output control, has high degree of internationalization, and adopt adaptive SIHRM orientation, the MNC will allow its overseas subsidiaries more discretion in adjusting their HRM systems to cope with local demands. The degree of HRM systems similarities between MNC’s HQs and subsidiaries tend to be low. On the other hand, when the MNC adopts input, behavior control, has low degree of internationalization, and adopts exportive SIHRM orientation, HRM systems in overseas subsidiaries will resemble that of the HQs’. In addition, when the MNC adopts integrative SIHRM orientation, HRM similarities between HQs and subsidiaries are also high.

Whether the design of HRM systems in overseas subsidiaries can help the MNC execute strategy is an important factor influencing MNC’s performance. Unfortunately, the available theoretical and empirical literature is limited. This study tends to provide tentative propositions based on previous researchers’ assertions and preliminary interview data for further empirical research.

Existing studies on HQ-subsidiary HRM similarities tend to focus on individual HR practices but fail to examine this issue from a holistic, systematic manner. Those surveys also did not examine HRM similarities between HQs and subsidiaries from a strategic perspective of internal and external fit. As Adler and Ghadar (1990) point out: “The central issue for MNCs is …to find the best fit between the firm’s external environment, its overall strategy, and its HRM policy and implementation” (p245). However, scant research efforts were devoted to the analysis of HRM similarities between HQs and subsidiaries from this perspective. In these respects, our study makes adequate contribution. By collecting information from both MNCs’ HQs and subsidiaries, we explore the issue of HRM similarities between parent firms and subsidiaries from the perspective of internal and external strategic fit.

In terms of external fit, we find Taiwanese MNCs decide their HRM practices according to their degree of internationalization and SIHRM orientation. In terms of internal fit, we find MNCs wield control mechanisms to coordinate HQs and subsidiaries’ HRM systems. The effects of such control mechanisms are reflected on the similarities of HRM systems between parent and subsidiary firms. Since this study aims at cross-company comparisons of parent-subsidiary HRM similarities under organizational context, we confine our study objects to subsidiaries located in Mainland China. Future research can examine MNC subsidiaries in other host countries to further explore the effect of host country influence on this issue.

Our study, however, still faces many important limitations. First, in order to acquire comprehensive understandings concerning relations among variables, this survey takes an exploratory approach in investigating only four multinational conglomerates. In later studies, large-scaled empirical research is needed to confirm the preliminary findings obtained in this study. Second, as MNCs’ operating environments become more complex, multiple factors will affect the design of subsidiary firms’ HRM systems. This study explores HQs-subsidiary HRM similarities only from the parent firm’s perspective. Possible influences on the design of HRM systems coming from subsidiaries and from the interactions between them and HQs (Martinez & Ricks, 1989 Beechler & Yang, 1994; Rosenzweig & Nohria, 1994; Taylor et al., 1996) are ignored. Subsequent research can approach this question from a more comprehensive angle. Third, this study finds MNC’s control systems, degree of internationalization and SIHRM orientation affect HQs-subsidiary HRM similarities. However, how does this relationship in the design of subsidiary’s HRM system affect MNC’s performance? The companies involved in this study are all large Taiwanese multinational enterprises that have been in existences for decades. This might be seen as an indication of their successfulness. We still need large-scaled empirical
As MNCs develop and extend their operating territory, the issue of control and coordination between HQs and subsidiaries grow in importance. HR function is involved in many aspects of MNC operations such as the execution of MNC’s strategy, transfer of knowledge, the establishment of core competence, and the development of employee potentials (Supangco, 2003). Adequate design of subsidiary firms’ HRM systems becomes an important factor affecting MNC’s survival and growth in the long run. If we can better understand the role played by HR function in MNCs’ operations, and what kind of effects does HR function bring to MNC’s operation results, we can better design appropriate systems to cope with MNC’s developments and enhance organizational competitive advantage.

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References


