Are MNCs norm entrepreneurs or followers? The changing relationship between host country institutions and MNC HRM practices

Abstract:

Rooted in the literature on comparative capitalism, we examine the effects of host country institutions on the intra-organizational practices of MNCs, using transnational level survey data, exploring change over time. We found that the less comprehensive institutional mediation of the Liberal Market Economies correlated with greater diversity and a more pronounced difference between domestic firms and foreign MNCs. However, rather than being the predicted norm entrepreneurs, MNCs tended to follow the lead of local firms in adjusting HRM policies and practices towards liberalization. Those most prone to challenging existing orders were in industries facing particular crises of competitiveness. Finally, we found that single regulatory features rather than complex assemblies of institutions exerted particularly strong effects on the individual firms' practices encompassed in this study.

Key words: Comparative capitalisms; institutional diversity; host country effects; systemic change; MNC; employer-employee interdependence; delegation to employees.

Introduction

The impact of MNCs on the spread of management concepts and practices such as human resource management (HRM) around the globe does not simply concern what goes on in the firm, but includes the impact of different national political, economic and social dynamics, and relations between key actors (Meyer, Mudambi & Narula, 2011; Pudelko & Harzing, 2007). This raises the question of whether international businesses bring new practices into host countries or largely seek to adapt to local practices, either because they are required to accept local practices or because they choose to exploit the advantages of local contexts (Cantwell, 2009; Rugman & Verbeke, 2001). Some of this literature suggests that this might be different in different contexts. And there must be a question about whether this changes over time.

It has long been understood that HRM policies are the area of management action most likely to be constrained or supported by the local context (Rosenzweig & Nohria, 1994). Based on different waves of the Cranet trans-national survey of HRM practice, we explore the extent to which structural changes in the global economy may, because they increasingly make national institutional arrangements more fluid, open the way for MNCs to disseminate their chosen alternative practices across the world. We use the literature on comparative capitalisms (Jackson & Deeg, 2008), but note that a limitation of this literature has been a general lack of attention to MNCs (Hall & Soskice, 2001; Amable, 2003). Although more recent accounts have begun to address this lacuna (Thelen, 2014; Whitley, 2010), there remains much ambiguity as to whether country of origin or host country institutions exert the stronger influence, although it often assumed that the former might be the case (Cooke, 2007; Meardi, Marginson, Fichter, Frybes, Stanovich & Toth, 2009).

There is a recent body of literature that has highlighted the role of host country effects (and, indeed, regional ones) in forcing MNCs to modify their policies, leading to the adoption of hybrid practices that will differ from local norms in at least some key features, whilst retaining aspects of others (Ferner, Almond, Colling & Edwards, 2005; Rugman & Oh, 2013). In this literature, a key concern has been the relative embeddedness of national regulations and associated ways of doing things, and whether firms seek to fit into or challenge the dominant model in their country of domicile (Cantwell et al., 2010). We recognize that the HRM policies and practices of firms represent the product of a complex mix of local and sectoral, regional, national and supranational factors. Comparing MNE practices in different countries of domicile over time represents only two dimensions of a much more complex picture of changes in regulation and practice (Wood & Lane, 2012); at the same time, the relative ability of MNCs to depart from local norms, and the efficacy and durability of contextual restraints, represent key questions, given widespread assumptions that most national systems are increasingly fragile and susceptible to challenges from abroad (Streeck, 2009; Jessop, 2012). An abiding concern of the IHRM literature has been the juxtaposition between host country realities and the relative commitment of firms to the HRM practices predominant in their country of origin (Bjorkman et al., 2007; Harzing & Pudelko, 2007). This study seeks to shed further light on the effects of host country institutions on MNCs' HRM practices, on when firms are likely to challenge established nationally specific ways of doing things, and on whether there has been an increased tendency towards such challenges over the past decade.

MNCs and Comparative Capitalisms

Within the International HRM literature, there has been increasing interest in the relationship between national institutional configurations and how firms manage their people (Aycan, 2005; Brewster et al., 2014; Scullion et al., 2005). Of particular influence has been the literature on comparative capitalisms (Brewster et al., 2014). Initially focusing on the case of the advanced societies, it examined the relationship between societal level institutional arrangements and specific firm level practices. It was argued that specific sets of institutions were associated with dominant modes of firm level practice; by 'fitting in', firms could reap the benefits conferred by a particular system (Hall & Soskice, 2001). It was further held that the most advanced societies had the most sophisticated institutional arrangements and, hence, the most advanced complementarities, which would encourage the adoption of mutually supportive combinations of HRM practices (Brewster et al., 2014; Hall & Soskice, 2001). Hall and Soskice (2001) argued that societies could be divided into Liberal Market Economies (the advanced Anglo-Saxon societies) and Coordinated Markets (the Rhineland Economies, Scandinavia and Japan). LMEs were associated with stronger property owner rights, a focus on competition and a limited role for government in business, and the Coordinated Market Economies (CMEs) of Europe and Japan, with rights for a wider group of stakeholders, more emphasis on co-operation between firms, and between firms and government, and the development of longer term relationships within and beyond the firm.

Hall and Soskice (2001) hardly addressed the notion of change in these economies, paying considerably more attention to cohesiveness and path dependence and, equally therefore, made no distinction between the position of indigenous firms and MNCs. Indeed, much of the early literature on comparative capitalisms (see also Amable, 2003; Streeck & Thelen, 2005) made little or no reference to MNCs. Rather, every firm was treated as an actor confronted with, according to setting, the same range of choices and complementarities, thus neglecting the effect of other institutional regimes on the firm, particularly ones with their headquarters in another country. More recent work has begun to redress this lacuna (Thelen, 2014; Whitley, 2010).

One strand of the comparative capitalisms literature, Business Systems Theory, devotes more attention to MNCs. Whitley (1999: 123) argued that moving into different locations may provide a mechanism for MNCs to escape some of the direct scrutiny of investors, echoing agency theory suppositions that managers of diverse organizations are more difficult to rein in. Furthermore, growth across national boundaries may reduce national cohesion that, in turn, may dilute the capability of firms to develop innovative strategies. Hence, whilst MNCs may challenge existing models when entering new markets, doing so will dilute their unique capabilities (Whitley, 1999: 123). In more advanced economies institutional arrangements are likely to be strongly embedded and, so more resilient and more resistant to change. While all settings are to some extent malleable, and firms may choose to opt into some practices and not others (Meyer et al., 2011; Rugman and Verbeke, 2001), host country systems may be variable in the extent to which they are open to innovation by MNCs. Whitley (1999: 124) argues that more coordinated markets with stronger mutually reinforcing features will exert a stronger host country effect than liberal markets.

Emerging from this literature are two related theoretical issues for IHRM. The first is the extent to which MNCs have departed from national norms over time and, indeed, have pioneered new practices or disseminated existing ones from elsewhere, undermining existing institutional arrangements. The second is the extent to which there has really been a progressive unwinding of national institutional settlements mirrored by changes in firm level practices, irrespective of the activities of MNCs.

MNCs will seek to gain from harnessing locally embedded capabilities (Jackson & Deeg, 2008: Rugman & Oh, 2013; Whitley, 2010) such as complementary skills bases, inter-firm relationships in more coordinated markets or, in other contexts, the ability to cut labour costs (Morgan, 2012; Cooke, 2007). The outcome represents a complex interaction of both host and home country institutions, diluting country of origin pressures through infusing local features (Brewster et al. 2008; Farndale, Brewster & Poutsma, 2008).

Much of the existing research on HRM has assumed that the main objective of MNCs has been to replicate home country practice and has focused on country of origin effects, and/ or on how the competing effects of country of origin and host country may be played out in practice (Tempel et al., 2006). MNCs may be unwilling or unable to make use of distinct local features and, therefore, favour a generic organization wide approach.

In contrast to MNCs, local firms are likely to be more deeply embedded within a national setting, having denser ties to other local actors (Morgan, 2010). They will be more familiar with the possibilities afforded by local complementarities. Since in CMEs inter-firm and firm-government ties are likely to be denser (Jackson & Deeg, 2008), while in LMEs institutional restraints are weaker and allow more scope for variation, the differences between MNCs and local firms may be more pronounced in the LMEs and less pronounced in CMEs. Alternatively, of course, within any context, it may be local firms that pioneer reforms according to their own needs and concerns, with MNCs simply fitting in with this. Schneider and Paunescu (2012), for example, suggest that recently Denmark, Finland, the Netherlands and Sweden have moved away from CME practices and become closer to the LME archetype.

The categories of LME and CME are very broad, encompassing multiple systemic features. In addition to the CMEs (which he calls ‘continental European’ capitalism), Amable (2003) distinguishes the Nordic economies or Social Democratic Capitalism (SDE), and South European, or ‘Mediterranean’, capitalism as distinct archetypes (Amable, 2003: 104–105). SDEs are distinguished by weaker employment protection than encountered in continental European capitalism, but a stronger state role in continuous skills development. Unions are very strong in the Nordic countries, so collective bargaining is important. Less emphasis is placed on vocational training than in CMEs; but more emphasis is placed on formal on-the-job training (Amable, 2003; Goergen *et al.*, 2009). Mediterranean capitalism also has a tradition of centralization, but there is no active employment policy, and considerable dualism between large organizations (where protection of core jobs and general regulation is high) and smaller ones, where job protection is weak, and law enforcement uneven. This model has little emphasis on lifelong learning or skills development (Amable, 2003: 106).

Japan is commonly held to be a CME (see Hall & Sockice 2001). However, the classic Calmfors and Driffill (1988) model of wage bargaining noted Japan as a highly decentralized system, with rewards often set at the individual level: it is on par with liberal markets such as the United States of America in this regard (Driffill, 2006). Others have argued that Japan is indeed closer to continental European countries, even if centralized wage setting features are less immediately visible (Dore, 2000). There is increased use of performance based pay amongst younger workers (Lee, Iijima & Read, 2011). Since the 1997 reforms legalizing share ownership plans, there has been a gradual dissemination of such schemes across Japan (Kato Lemmon, Luo & Schulheim, 2005).

Another clustering of states with similar histories and developments during the past three-quarters of a century consists of the ex-communist countries in Central and Eastern Europe. Lane (2007) argues that the transforming states face pressures toward both liberalization and incorporating aspects of the European social model: Wealthier countries in the region are more likely to infuse aspects of the European social model and the poorer ones to adopt purer forms of neo-liberalism.

Institutional Setting and Differences in Interdependence and Delegation

Among the key defining characteristics of comparative capitalisms are the institutional arrangements of the employment relationship and how firms manage their people (Hall & Soskice, 2001; Whitley 1999) - or human resource management. The key distinguishing features here are delegation and interdependence (Whitley, 1999; 2007): Delegation encompasses the degree of employee involvement, participation and co-determination; interdependence covers continuity in tenure and relative propensity to invest in people. Although these two composite measures encompass only a limited range of areas of the HRM function, they encompass not only voice and job security, but also training and development, and have been identified as those areas of people management most likely to vary according to setting (Hall & Soskice 2001; Whitley, 1999).

On delegation, CMEs are associated with higher levels of employee voice, in terms of both a greater incidence of collective bargaining and also more widespread use of (sometimes legally backed) co-determinative structures such as works councils, so that employees are more likely to have a stronger input in both the employment contract and the nature of work organization (Hancke, Rhodes & Thatcher, 2007; Whitley, 1999). In contrast, in LMEs employers are less likely to delegate or share decision making with workers in these areas. Whilst employee voice may assume many different forms, the strongest tend to be collective and representative, key manifestations being collective bargaining and/ or works councils (Brookes et al., 2005).

On interdependence, firms in CMEs are more likely to have longer term relationships with employees, giving both them and employers strong incentives to develop human capital, whereas in LMEs labour is more readily substitutable and training is more likely to be induction level training for new employees (Goergen, Brewster, Wood & Wilkinson, 2012). Continuity in tenure may be measured both through staff turnover rates and the relative propensity to make use of redundancies (Brookes, Brewster & Wood, 2005). MNC subsidiaries may seek to gain benefits from established local production regimes which, in coordinated market host settings, may entail some departure from HRM norms in the country of origin (Whitley, 2010) or they may prefer to impose their own style, which they feel more likely to bring competitive advantages. If they choose the latter, they may find it more or less difficult depending on the market economy in which they are located.

In practical terms the denser institutional frameworks of CMEs will increase the sunk costs for MNCs operating in such settings (Hancke et al., 2007; Jackson & Deeg, 2008). This is because the more tightly co-ordinated control mechanisms in the CMEs will increase the costs of innovative behavior. There are for example greater national barriers to MNCs adopting standardized company-wide practices in Germany, the archetypical CME, than in the liberal market United Kingdom (Geppert et al., 2011). There are two reasons why MNCs might find it more beneficial to adjust to HRM practices in the CMEs than elsewhere. First, the CMEs tend to have much better educated and more skilful workforces (Estevez-Abe, Iversen & Soskice, 2001). If the MNC has entered this market to take advantage of that, then adopting local practices would bring legitimacy (Kostova & Zaheer, 1999) and enable the organization to gain maximum benefit. Many MNCs have centred their competitiveness on cutting wage costs either directly or via outsourcing. This will be more pronounced in the LMEs, with their less dense institutional arrangements (Almond, et al, 2005), and where the MNC is less likely to benefit from the skills of the local labour force. Of course, the process of policy transfer to subsidiaries may be contested by key actors there, forcing compromise arrangements (Oliver, 1991). Ferner et al. (2005) suggest that such preferences are not, however, automatically articulated into practices: what MNCs are actually able to do will be in part determined by constraining factors, such as sector, existing union relations, and the relative autonomy of the subsidiary. Since these are more likely to constrain operations in the CMEs, the MNC may have one or both of two reasons for preferring to adopt local practices there – to take advantage of the more skilled workforce or because the costs of importing different practices are considerably higher. Hence:

Hypothesis 1. MNCs operating in CMEs are more likely to adopt HRM practices in line with local norms, than they are to do so in other settings.

It may be difficult to disentangle why firms behave the way they do in particular countries, since national institutional arrangements are not perfectly aligned (Wood & Lane, 2012), so that specific systemic features may exert a disproportionate influence in particular areas. Rather than building on coherent systemic strengths, firm level practices may represent efforts to compensate for systemic weaknesses (Crouch, 2005). However, this would be most pronounced in areas where firms have the greatest discretion, and conversely, there will be the closest alignment between institutions and practices in areas that are most closely regulated. Again, Hall and Thelen (2009) argue that because actors seek distributional benefits from institutional arrangements, they will always seek to test the limits of the system to see if they can accrue more for themselves; this would suggest that a limited range of regulatory features will have the most direct effect on what firms do. Where there is greater discretion, there will be more variety. The existing literature suggests that formal wage coordination and employment protection will have particularly pronounced effects (Amable, 2003; Botero et al., 2004; Goergen et al., 2012). Hence, we explore the direct effects of these two systemic features, untangled from other institutional arrangements via three sub-hypotheses:

Hypothesis 1a. MNCs commitment to delegation is likely to be sensitive to the extent of wage coordination in the host country.

Similarly with the MNC's decision to either adapt to the local practice on the interdependence of the subsidiary workforce or to introduce innovative patterns (of either more or less interdependence). In the CMEs a certain degree of interdependence is required by the employment laws that restrict dismissal (Venn, 2009) and the normative expectation of longer careers within one organization. We anticipate that:

Hypothesis 1b. Interdependence within MNCs operating in foreign locales is likely to be sensitive to the level of employment protection in the host country.

Our third sub-hypothesis combines these themes. Both interdependence and delegation will be affected by skill specificity (Alt & Iversen, 2013), the particular mix of skills peculiar to each economy type. Thus, it is well understood (Cooke, 2005; Reddding & Venables, 2004) that some countries build a high value-added economy whilst others rely on cheap labour for their competitive advantage. As noted above, either situation can provide benefits for MNCs, but clearly their strategies will be different in the different situations. Hence:

Hypothesis 1c. Interdependence and delegation within MNCs operating in foreign locales is likely to reflect national skills profiles.

Since the end of the long postwar boom in the 1970s, the regulation of labour has been gradually eroded across the developed world, associated with increased inequality, diminished collective representation and reduced security of tenure. If anything, these trends have accelerated through the 2000s (Jessop, 2012; Maclean & Crouch, 2011: 2-3; Marsden, 2011: 1-12). Pessimistic accounts such as Streeck (2009) have suggested that the CME model is gradually unwinding and converging with the LME model. However, other accounts have suggested that whilst all national economies are liberalizing, they are doing so at roughly equal pace, leaving them approximately the same distance apart (Hall & Gingrich, 2009). The literature on Varieties of Capitalism has always held that other national archetypes (e.g. Mediterranean and Emerging Market Economies) will inevitably converge with the more mature archetypes (Hall & Soskice, 2001), although developments and extensions of this literature have suggested that some features of these economies may remain relatively durable (Hancke et al., 2007). At the same time, MNCs may have more room to challenge established ways of doing things in such settings (c.f. Morgan, 2012).

A common theme of recent comparative institutional analyses suggests that there are strong exogenous global pressures towards systemic liberalization given, *inter alia*, the global impact of financializaton (Jessop 2012; Maclean and Crouch, 2011). Mobile and highly fluid investor capital forces firms to adopt more contingent and arms-length contractual relationships with their workforces, and makes them more reluctant to delegate to, and invest in, the latter. Dore (2008: 782) argues that such trends are often driven by system outsiders, such as MNCs, who are less rooted in, or have fewer ties to, an existing order. This might suggest that MNCs are increasingly reluctant to adjust their HRM practices to host countries, other than in terms of cost-cutting (c.f. Regner & Edman, 2012). Pudelko and Harzing (2007) found an increasing tendency for MNCs to align their practices with the US model; country of origin pressures from other capitalist archetypes appeared much less pronounced. This would suggest a move towards more contingent and flexible HRM practices.

Hypothesis 2; Since 1999, there has been a trend away from MNCs adopting more cooperative HRM practices regardless of host country.

This does not mean that the subsidiary necessarily plays a passive role in such a process. Ferner et al. (2011) note that the relative strategic role and autonomy of the subsidiary may mould the nature and extent of innovation. Kostova and Roth (2002) argue that the adoption of organizational practices within particular national settings is dependent on both host country institutions and internal relations within the MNC. Some practices may lend themselves more to dissemination than others, and the relative nature of power relations within and beyond the firm are likely to impact this process.

Method

Our data is taken from the repeating cross-national Cranet survey of HRM practices. This survey targets larger firms with 100+ employees. For each country the questionnaire is translated and back-translated (Brislin 1976; Brislin, Lonner & Thorndike 1973; Matsumoto & & van de Vijver, 2010), to ensure consistency in the interpretation of the questions. The questionnaire is completed by the most senior HRM person within the organization and the sample is either full-population, in the smaller countries, or stratified, based on the industrial distribution of employment, in larger countries. Hence, every attempt is made to ensure that the sample is representative of the employment structure within each country. Response rates range from just over 10% to nearly 40% depending on country and survey round. We use data from the 1999/ 2000 survey and the 2009/ 2010 survey in order to track any change over time. This sets the paper apart from previous work using the Cranet survey that considers MNCs (Brewster et al. 2008; Brookes et al. 2005; Farndale et al 2008), as well as the fact that this paper centres on the most recent round of Cranet data. We also take account of the most recent advances in the theoretical literature, all this making for rather different conclusions.

We used empirical data from the 16 countries within the data set that fit easily into Amable's (2003) categorization of comparative capitalisms: the UK, Ireland and Israel as LMEs; Germany, Netherlands, Austria, Belgium and France as the continental coordinated European CMEs; Sweden, Denmark, Norway and Finland as Nordic SDEs; Greece as a Mediterranean MME; Bulgaria and the Czech Republic as transitional EMEs; and Japan as an Asian economy. Removing public sector organizations and undertaking list wise deletion reduces the useable pooled data set from the two cross-sectional samples to 6248 private sector firms across these 16 countries, with the breakdown reported below in Table 1.

<<insert Table 1 about here>>

We make use of the theoretical contribution of Whitley (1999) to identify delegation and interdependence, as well as adopting the empirical approach to measuring these features pioneered by Brookes et al (2005). Delegation is measured through the presence of collective bargaining over pay for different levels of employee, the presence of a Joint Consultative Committee (JCC) or Works Council as well as employees regularly communicating their views to management through a trade union or a JCC/ Works Council. So any firm that has collective bargaining for management, professional staff, clerical and manual workers, has a JCC/ Works Council and has regular communication through the trade union or JCC displays the strongest commitment to delegation. Interdependence is measured using the firm's willingness to use compulsory redundancies, its average annual staff turnover and the amount of time it dedicates to training different levels of employee. So any firm having not used compulsory redundancies in the last three years, having staff turnover below the average of the overall sample and having above average levels of training for management, professional staff, clerical and manual workers displays the highest levels of interdependence.

The complexity of these two features implies that any single measure of delegation or interdependence would not effectively capture their nature within the organization. So we created scales from the individual responses to the survey questions by applying Mokken's non-parametric model for one dimensional cumulative scaling (Sijtsma & Molenaar, 2002). The resultant scales reflect the organization's commitment to delegation and to interdependence with a firm answering 'yes' to all six questions having a value of 100 and the firm answering 'no' to all six having a value of zero. For the majority of firms, with a combination of 'yes' and 'no' answers, their position along the continuums is determined by the number of 'yes' responses as well as the relative scarcity of firms giving a 'yes' response to that particular question. It is important to use this type of approach since merely aggregating the components to create a scale implies that each of those components is an equally important indicator of the firm's commitment to delegation. Therefore, features that are less common have a bigger impact upon the value of the scale than those which are more widespread across the sample, since if virtually all firms display a particular feature that reveals very little about each firm relative to all of the others, and the opposite is true if there are very few firms displaying that feature.

The basis for each of the two scales plus the results from the appropriate scalability and reliability tests are reported in Table 2. In order for it to be a statistically valid step to represent the separate items as a single Mokken scale, all of the individual items, as well as the scale itself, need to satisfy both the reliability and scalability tests. This requires that the scale has a Cronbach's alpha in excess of 0.7 for reliability and the individual items, as well as the scale itself, have H-values and intra-item correlation coefficients in excess of 0.3 to satisfy the scalability conditions (Sijtsma & Molenaar 2002). These two scales are then used as the dependent variables in regression models, estimated using OLS, where the firm's commitment to delegation and then interdependence are a function of a range of explanatory variables, including some enabling the hypotheses to be tested. It is possible that factors at both the firm level as well as the country level may have an impact upon a firm's commitment to delegation and interdependence, hence the analysis might lend itself to a hierarchical modelling approach, unfortunately with only 16 countries in the sample that approach isn't viable with these data. Both delegation and interdependence are estimated as a function of size, ownership and industry. Size is included since it is likely that the relationship between managers and employees, as well as the role of the HRM function is likely to change as firm size increases (Brewster, Wood, Brookes & van Ommeren, 2006) and is measured using the total number of employees at the establishment. Industry is also included because the dominant method of organizing productive activities within any industry is likely to be more or less conducive to pursuing delegation and/ or interdependence and is controlled for the 14 industry dummies of the European Union's NACE classification. Since the overall thrust of this paper posits that foreign owned firms are likely to behave somewhat differently to domestically owned ones, ownership is controlled for with a dummy variable separating the domestically owned firms from the foreign owned MNCs. In the Cranet survey each organization is asked where the corporate headquarters of the organization is based, they are pointed towards the ultimate parent company if the enterprise is part of a larger group, and those organizations where the corporate HQ is in a different country are deemed to be foreign-owned. In addition, to facilitate the testing of the specific hypotheses, a time dummy is also included as well as a series of dummy variables identifying each of the Amable (2003) varieties of capitalism. Furthermore, even if home country effects are strong, it is unlikely that there would be no host country influence at all, hence interaction terms reflecting foreign ownership and the economy type in which it is operating are included to control for possible differences in MNC behaviour across different types of environment. The reference category for the models is a domestically owned metal manufacturing company based in an LME in 1999/2000.

<<insert Table 2 about here> >

The data used in the empirical analysis is cross-sectional. The Chow test, originally developed as a means of empirically examining changes over time within time series data (Chow, 1960), is a standard econometric test of whether the structure of two linear regressions on different data sets, or subsets of a single data set, are the same. Since then the test has been most commonly applied within macroeconomics where typically the empirical analysis focuses upon a key macroeconomic variable and the Chow test is applied to establish whether there have been significant changes to the key variable between specific points in time. The Chow test is used to determine whether the independent variables have different impacts on different subgroups of the overall sample. Therefore even though the empirical analysis makes use of cross-sectional data it is still possible to conclude that the changes across the two periods are due to time effects. Of course it has to be accepted that there is always the potential, when comparing cross-sectional data across time, for any inter-temporal changes to in fact result simply from changes to the firms included in each sample rather than being true changes across the overall population. Hence, to eliminate this possibility in the testing of Hypothesis 2 the analysis is replicated using a pseudo panel approach. The principle behind this type of approach is that where panel data does not exist a proxy for a panel can be constructed by taking samples from time-stable cohorts of individuals or firms rather than repeatedly collecting data from the same specific units. The upshot is that the mean values for the variables in each cohort are then the observations for the pseudo panel data (Russell & Fraas, 2005). In this instance 96 cohorts were created based upon the six economy types, the two time periods, the two forms of ownership, i.e. domestic and foreign owned, as well as four size categories based upon the distribution of firm size around the median.

Findings

Overall, the broad thrust of the analysis, that foreign-owned firms behave differently from domestic ones, is largely proven by the results. However the picture with the sub-hypotheses is more complex and requires detailed discussion. The correlation matrix for all the variables included in the empirical analysis is shown in Table 3 and the results from estimating the regression models as outlined above are reproduced in Table 4 for both delegation and interdependence. In terms of delegation, most of the *a priori* expectations are confirmed, with a greater commitment to delegation amongst larger firms (β=0.183, p<0.01) as well as some significant variations across the different industries with 8 out of 13 industries being significantly different from the metal manufacturing reference category. This differs slightly from interdependence where, although significant cross-industry differences remain with 6 out of 13 being differing significantly from the reference category, the size of the firm is unimportant (β=-0.006, p<0.8). Overall this implies that how employers and employees interact with each other, as well as the strength of the resultant relationship between the two groups, is sensitive to the typical organization of production within each industry, whilst larger firms in all industries have a greater tendency towards formal voice mechanisms and collective bargaining. There is also strong evidence of different levels of delegation and interdependence across the different types of economy, with higher levels in all the other economy types than is found in the LME reference category. An exception concerns delegation in the transitional economies, which have significantly lower levels than the LME countries (β=-6.558, p<0.01). Overall this indicates that there is a strong tendency among the LME countries towards what can be termed the lower value added approaches.

<<insert Table 3 about here>>

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So, despite predictions of global homogenization and, indeed, predictions of an ongoing decay of the CME model (Streeck, 2009), it is apparent that such countries still retain their distinctive features.

The foreign ownership dummies are strongly significant in both models suggesting that in general the behaviour of foreign owned MNCs is distinct from domestically owned ones. Delegation is significantly lower amongst foreign owned MNCs, ($\beta=-9.213$, $p<0.05$), suggesting that they are less willing to interact with formal organizations such as trade unions and works councils. Interdependence on the other hand is significantly higher, ($\beta=-6.146$, $p<0.01$), suggesting that foreign owned firms have a stronger commitment to the 'high road' strategies than do the domestic ones. Closer inspection of the scale reveals that the only area where foreign owned firms display a higher level of interdependence is annual staff turnover, where their average annual turnover rates are significantly lower than the domestic firms. Finally, interaction terms are included, seeking to identify whether foreign owned firms behave differently in the various types of economy. The results partly confirm this. Foreign owned MNCs in general do display significantly lower levels of delegation. However, this is offset to a certain extent in CMEs and Mediterranean countries, where the distinction between foreign owned firms and the reference category is much less pronounced, ($\beta=5.659$, $p<0.05$) and ($\beta=7.500$, $p<0.01$) respectively. This could reflect the fact that MNCs may, not only in CMEs but also in areas of Mediterranean economies where there are well developed local production networks, be more likely to conform to local ways of doing things, in order to reap the full benefits of local production regimes (Whitley, 1999). Within the transitional economies, foreign owned MNCs actually tend to have higher levels of delegation which may reflect the close proximity between key transitional economies and mature coordinated markets, with production activities and supply networks being integrated across national boundaries (Lane & Myant, 2007).

There is a similar pattern to interdependence which is generally higher within foreign owned MNCs, a less pronounced effect for those within CMEs, ($\beta=-6.146$, $p<0.01$) but reversed among foreign firms in Mediterranean MMEs, ($\beta=-14.29$, $p<0.01$) and Japan ($\beta=-16.61$, $p<0.01$) where interdependence as measured by the scale is actually lower. This may, in the MME case, reflect relatively high unemployment rates, and declining job prospects in large organizations: These would discourage workers employed by large firms from the exit option.

Discussion

Turning to the formal hypotheses, the first one posits that MNCs' HRM practices are likely to be closer to those of domestically owned firms in CMEs than they are elsewhere. The interaction terms from the original models (Table 4) give some support to this proposal. However, these measures are somewhat ambiguous in relation to this hypothesis since comparisons are being made against firms in other economies at the same time. A more refined approach is to estimate the regression models separately for foreign owned MNCs and domestic firms in each type of economy in turn and then undertake a Chow test of structural stability to establish if the behavior of foreign firms differs significantly from domestically owned ones. We do this for LMEs and the Nordic and continental CMEs[i] (Table 5).

The Table reports the means for delegation and interdependence respectively, initially within the combined sample and then for the two sub-samples separately. So working down the first column the overall sample is all firms based in LMEs and the two sub-samples are these firms separated into domestically owned and foreign owned MNCs. In all cases, at an observational level, we have confirmation for the regression results that delegation tends to be lower in foreign owned MNCs whilst interdependence tends to be higher. Moving to the bottom of the Table enables Hypothesis 1 to be explored in more detail. In each case the null hypothesis is that there is no significant difference between the two sub-samples, so for LMEs, since the F statistic is greater than the critical value at both the 5% and 1% levels, we can reject the null hypothesis and conclude that, for both delegation and interdependence, the behaviour of foreign owned MNCs differs significantly from domestic ones. Working across the Table we can also reject the null hypothesis for delegation in both the continental CMEs and the Nordic SDEs, indicating that in all three economy categories the commitment to delegation is lower among foreign owned MNCs than it is within domestic firms.

<<insert Table 5 about here>>

However, because the F statistic for LMEs is more than twice the value of those for continental and Nordic economies, we can be confident that the magnitude of that difference is much greater within the liberal market economies. So we conclude that, at least for delegation, Hypothesis 1 is confirmed, foreign owned MNCs are more likely to adopt practices in line with local norms in CMEs. Furthermore, with interdependence, the case is even stronger because we reject the null hypothesis only in the case of LMEs and the conclusion for continental CMEs and Nordic SDEs is that no significant difference exists between foreign owned MNCs and domestic firms. Within these economies there is clearly an impact from the combination of many factors, such as more comprehensive coverage of collective bargaining, legal requirements for union recognition and works councils as well as a much stronger commitment towards collaborative approaches within the workplace. This would suggest that MNCs in Nordic SDEs and CMEs are under strong pressures to either comply with formal regulation and/ or to comply with local norms in order to reap the full benefits from local high value added production regimes (Morgan, 2012; Whitley, 2010). Mediterranean and Transitional economies were closest to the LMEs in terms of delegation yet the furthest away for interdependence. The first would reflect the limitations in the relative coverage of bargaining (especially given the prominence of small businesses), and the second could be explained by the persistent importance of personal relationships (in the case of the Mediterranean countries) and the greater need for firms to compensate for shortfalls and misalignments in national training systems.

In addition to this, three sub-hypotheses were developed to explore the possibility that delegation and interdependence were not necessarily most influenced by the way that economic resources were organized across the whole economy, but were more sensitive to factors specific to interactions within an individual firm. Thus, the empirical models were re-estimated replacing the economy type dummies with Kenworthy's national wage coordination index (Kenworthy, 2001) for delegation and with the OECD employment protection index for interdependence, as well as recoding the countries based on the national balance between employment and unemployment protection (Alt & Iversen, 2013). In the interests of space and clarity these results are not included here, although they are available on request, but they do still warrant discussion.

In all three cases replacing the economy type dummies with wage coordination or employment protection or combining employment protection with unemployment support for the Alt and Iversen index reduces the predictive power of the empirical model, although not significantly. Hence, although it suggests that the impact of the capitalist archetype will be greater, there is little doubt that key individual components, including the level of wage coordination and employment protection as well as unemployment protection exert a particularly strong influence. This highlights an important future research priority: a clearer knowledge of the relative influence of these relationships would shed further light on whether specific sets of

HRM practices when encountered together under a particular institutional regime are designed to take advantage of complementarities.

The second hypothesis posits that there has been a hardening amongst MNCs in terms of their approaches to HRM practices. This inter-temporal analysis is based upon two representative cross-sectional data sets collected in 1999 and then subsequently in 2009. In each country for both years the sample is stratified based upon the distribution of employment by industry. Hence, although the same enterprises are not included within both years' data, the representative nature of the national data sets enables valid comparisons across years to be made. In the initial models the negative and significant time dummies suggest that this is the case for all firms. The results from repeating the approach from the previous hypothesis and undertaking Chow tests, having run the models separately for the two years for domestic and foreign owned firms in turn, are recorded in Table 6. The first column reports the results for all of the firms and then separates them into the two years with the final two columns focusing on domestic firms and foreign owned MNCs respectively.

<<insert Table 6 about here>>

From the regression results the negative and significant time dummies indicate that there had been a reduction in the level of both delegation and interdependence over the decade between 1999/ 2000 and 2009/ 2010. However, the first column of Table 6 reports that there has been a slight increase in both the delegation and interdependence scales across the two years. Closer inspection of the two sub-samples reveals changes to the industrial distribution. In other words, industries where higher value added HRM practices tend to be more common have expanded and industries with a greater tendency towards 'low road' policies have contracted. So, even if the latter are increasingly popular – and better at extracting short term value – those following higher value added HRM policies are more likely to expand. Hence, once industry has been controlled for in the regression models, it shows that there has been a movement away from higher value HRM practices. In short, although more firms are making use of lower value added policies, the adoption of them is associated with industrial decline. Why, then, do firms adopt them? Firstly, such policies are likely to be perceived positively by more mobile and speculative investors who, as an integral feature of the ongoing economic crisis, have become increasingly prominent (Wood & Lane, 2012). Secondly, in a global ecosystem dominated by neo-liberalism, the ongoing proliferation of ultra-low cost producers in many sectors of industry has made it very difficult for firms to compete without cutting costs somewhere. Nor do niche markets necessarily offer a safe refuge where higher value added production paradigms may remain viable: “Lucrative niches never remain undiscovered for long and are difficult to defend against outsider competition” (Becker, 2006: 190).

Table 6 show that the null hypothesis has been rejected in all cases for delegation, although only at the 5% level for foreign owned MNCs, and for interdependence the null hypothesis is rejected overall and for domestic firms but not for foreign owned MNCs. The overall implication of this is that the trend away from higher value HRM practices has been driven by domestically owned firms rather than foreign owned MNCs. These results were checked using the pseudo panel data and a fixed effects model including a time period dummy was estimated. Again, in the interests of space, these results are not included here, but they can be summarized fairly succinctly since in all cases the time period dummy was always insignificant: any changes over time were more to do with differences across the firms in the two respective cross-sections, rather than suggesting any systematic changes across the whole of the population of firms in each country. As a consequence Hypothesis 2 is rejected. Why would this be the case? MNCs choose, as Whitley (2010) notes, to enter particular markets owing to the competitive advantages they confer, be they low costs, or particular skills sets, capabilities or supplier relations. Whilst many MNCs have reputations for poor labour relations policies and, indeed, may seek to export them (Shlosser, 2001: 71), as noted above, they may depart from them if need be to access particularly lucrative markets or sets of capabilities (Whitley, 2010; Morgan, 2012). In other contexts, MNCs may seek opportunistic benefits from weak regulation and/ or poor labour standards norms, which, in turn, may be the product of earlier choices by local players (Habib-Mintz, 2009: 41).

Conclusions

We explored variations between the HRM practices of MNCs and their local counterparts in host countries, and changes over time. This study differs from earlier work on the subject in that it explores changes over time and the role of MNCs in pioneering or following on systemic change. We found that MNEs were not the norm entrepreneurs predicted by literature (c.f. Dore, 2008), but rather were more cautious than their local counterparts in departing from national recipes. In other words, whilst we confirmed that there has been a limited move away from higher value added HRM practices in many national contexts, this has largely been driven by domestic firms, rather than by MNCs, a process that would both reflect and accelerate a progressive unwinding of existing institutional restraints. However, the study reveals not so much a radical departure from the past, but rather incremental and cautious adjustment.

Those industries characterized by the most pronounced change to lower value added HRM policies in this direction were those facing crises of competitiveness (c.f. Schneider & Paunescu, 2009). This raises a question of causality: whether harder line practices represent a product or cause of industrial decline? We cannot tell from this data, but it is likely that both are true. A caveat is in order here. Within CMEs, the differences between local firms and MNCs remained the least pronounced, reflecting the denser nature of institutional relations within such settings (Jackson & Deeg, 2008), and confirming that there remained some benefits from fitting in, in order to benefit from seemingly more durable complementarities. An important issue for practitioners to consider would be whether departing from an established model towards the unchartered waters of low value added practices will undermine organizational competitiveness to a greater extent than short term cost cutting might help it.

This also tends to challenge the assumptions made in much of the HRM literature that country of origin or a desire to import home country practices are at the root of MNC HRM policies. For example, earlier work using the Cranet survey has suggested that US MNCs are likely to be more aggressive than non-US ones in driving down labour standards (Gooderham, Fenton-O'Creevy & Nordhaug, 2008). In the post economic crisis era, this distinctive feature may not be nearly as visible, and constitutes a fertile area for future research. Firstly, the relationship between delegation, and interdependence and the national level institutions is likely to be far more subtle and nuanced than the models that have been estimated here. It may be, for example, that in countries with significantly lower labour costs than the mainly European countries reported on here, MNCs might be more likely to adopt 'low road' HRM policies. Therefore further analysis encompassing a larger sample of countries and using multilevel analysis is to be encouraged

Finally, the findings revealed that some institutional features (for example, wage coordination and ease in firing) exert a relatively strong influence on practices in their own right. This would raise some important questions on the nature of institutional complementarity: Do combinations of institutional features exert a stronger and more far reaching influence than do individual policies, given that we found that single regulatory features appear to exert a relatively strong influence in their own right, rather than when encountered in concert with others. Again, this would suggest that limited regulatory reform may undermine broad areas of HRM practice which, in turn, is likely to impact on the relative competitiveness of sectors and nations. Key areas of future research would include a closer evaluation of the specific range of individual regulatory features most likely to impact on firm practice, the impact of policy reforms encompassing such features, and the relationship between organizational competitiveness and willingness to adopt practices at odds with national norms.

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[i] This proved impossible for the other economy types due to the small numbers of foreign owned firms in those specific samples.