INFLUENCES ON HUMAN RESOURCE MANAGEMENT PRACTICES IN MULTINATIONAL CORPORATIONS

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Abstract. A study of human resource management practices in 249 U.S. affiliates of foreign-based multinational corporations (MNCs) shows that in general affiliate HRM practices closely follow local practices, with differences among specific practices. The degree of similarity to local practices is significantly influenced by the method of founding, dependence on local inputs, the presence of expatriates, and the extent of communication with the parent. In addition, sharp differences are revealed among affiliates of Canadian, Japanese and European MNCs, suggesting strong country effects. Together, these findings support the view of MNCs as composed of differentiated practices, which in turn are shaped by forces for local isomorphism and for internal consistency.

One of the central questions in the literature on MNCs is the extent to which their various foreign affiliates (or subsidiaries) act and behave as local firms versus the extent to which their practices resemble those of the parent corporation or some other global standard. In a seminal paper on this topic, Perlmutter [1969] described three types of MNCs: ethnocentric, polycentric and global. According to this typology, the management practices in foreign affiliates of MNCs could resemble those of the MNC's home country (ethnocentric), could conform to local practices of the affiliate's host country (polycentric), or could adhere to a worldwide standard (global).

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Perlmutter's typology described the management practices of the MNC in terms of an overall orientation. More recently, some scholars have argued that viewing multinationals in terms of an overall orientation obscures the internal differentiation of management practices within an MNC [Hedlund 1986; Bartlett and Ghoshal 1989; Ghoshal and Nohria 1989]. Instead, they argue, an MNC is properly viewed as a nexus of differentiated practices.

According to this view, MNC affiliates are composed of many separate practices, ranging from manufacturing to finance to human resources, each of which faces distinct pressures for global efficiency and for local responsiveness [Doz, Bartlett and Prahalad 1981; Prahalad and Doz 1987]. In organization theoretic terms, the profile of management practices in an MNC is shaped by the interplay of opposing pressures for internal consistency and for isomorphism with the local institutional environment, with specific practices shaped by these opposing pressures to varying degrees [Rosenzweig and Singh 1991]. As a consequence, Perlmutter's three-part typology may not be sufficient to describe the complexity within MNC affiliates. As Soenen and Van den Bulcke [1988] found in their study of Belgian firms, some affiliate practices may tend more closely to resemble the MNC's home-country practices, while others may more closely resemble host-country practices, and still others may be global in nature.

In this study, we examine the forces that shape HRM practices in MNC affiliates. HRM practices, no less than others, as Evans and Lorange [1989] have noted, are subject to the dual pressures for local adaptation and internal consistency. Accordingly, we start by examining the resemblance of a number of affiliate HRM practices to local practices and to parent practices. From that baseline, we consider a set of related hypotheses, testing whether factors such as the extent to which the affiliate is embedded in the local environment, the extent of flows between the parent and the affiliate, the characteristics of the parent, and the nature of the industry, influence HRM practices. Finally, we examine differences among affiliates according to their parent nationality. Our guiding objective is to provide a more thorough understanding of the forces that influence human resource management in MNCs, and, more generally, to shed light on the determinants of management practices in MNCs.

HUMAN RESOURCE PRACTICES IN MNCS: THEORY AND HYPOTHESES

Of the two logics that shape HRM practices in MNCs, which is stronger: the pressure for internal consistency or the pressure for local isomorphism? One view argues that the pressure for internal consistency is stronger. Because employees may move among subunits, MNCs seek to develop a consistent approach to compensation and benefits, and to maintain consistent policies and procedures. Even in the absence of extensive employee mobility across borders, MNCs may wish for reasons of internal equity to adopt a consistent set of HRM practices around the world. Consequently, we should expect affiliate HRM practices to be shaped mainly by the pressure for internal consistency.

Counteracting the pressure for internal consistency is a pressure for affiliate HRM practices to resemble local practices. Some practices may have to comply with local laws and regulations, and may therefore be compelled to resemble local practices through "coercive isomorphism" [DiMaggio and Powell 1983]. In other instances, affiliates may seek to resemble local firms, perhaps to compete more effectively in local labor markets, or to "fit in" by imitating local practices. Adopting local practices for these reasons may be explained as "normative isomorphism" and "mimetic isomorphism," respectively [DiMaggio and Powell 1983]. These pressures, separately or in combination, would lead MNC affiliates to adhere to HRM practices found in the local environment rather than those of the foreign parent.

While theoretically it can be argued that HRM practices are shaped by equally compelling counteracting logics, previous empirical research has tended to show that of all functions, human resource management tends most closely to adhere to local practices, whereas finance and manufacturing tend more closely to resemble parent practices (see, for example, Kobayashi [1982]). This is because HRM practices are often mandated by local regulation or shaped by strong local conventions. Moreover, since an MNC affiliate, in most instances, has little choice but to hire its employees from competitive local labor markets, it is hard for it to diverge too much from local norms. Finally, as indicated by recent concerns about the rising levels of employment of U.S. nationals in foreign-owned firms (e.g., Fucini and Fucini [1990]), HRM practices can be politically sensitive and affiliates may prefer to conform to local practices rather than invite unnecessary scrutiny. Thus our first hypothesis is that the overall tendency of HRM practices to more closely resemble local practices, as reported in earlier studies, will hold in our data as well:

Hypothesis 1: Overall, affiliate HRM practices will more closely resemble those of local competitors than those of the parent in its home country.

While we have hypothesized that in general affiliate HRM practices will more closely resemble those of local competitors, we expect this tendency to vary across HRM practices. In keeping with the precepts of institutional theory, practices that are mandated by local laws, or are highly visible, or affect a large number of locals, or entail a high degree of interaction with locals, will face stronger pressures to conform to local practices [Meyer and Rowan 1977; DiMaggio and Powell 1983]. Conversely, practices that are most likely to raise concerns of internal equity or that involve a high degree of interaction with the parent will face stronger pressures to conform to parent practices. To explore this variation, we examined six different HRM practices.

Walton and Lawrence [1985] identified four major areas of HRM policy: reward systems, including compensation and benefits; employee influence mechanisms such as participation; job design and work organization; and employee selection and development. Seeking to capture a number of these elements, we identified six HRM practices for study: (i) the extent of employee benefits (*Benefits*), (ii) the extent of annual paid time off (*Time Off*), (iii) the use of bonuses to compensate managers (*Executive Bonus*), (iv) the degree of participation in executive decisionmaking (*Participation*), (v) gender composition of management (*Gender Composition*), and (vi) the amount of employee training (*Training*).

For these six HRM practices we offer a hypothesis followed by our underlying rationale:

> Hypothesis 2: HRM practices will tend to conform to local practices in the following order, starting with the one that will most closely resemble local practice: (1) Time Off; (2) Benefits; (3) Gender Composition; (4) Training; (5) Executive Bonus; and (6) Participation.

We expect *Time Off* to most closely resemble local practices because norms about this practice are often set by local legislation or determined by collective bargaining agreements. Thus an MNC affiliate often has very limited choice but to offer at least as much *Time Off* as its local competitors. And though it has the option of offering more *Time Off* than is customary in the local environment, it is unlikely that a profit-oriented firm would do so.

Most of these arguments also apply to the practice of employee benefits. In the case of *Benefits*, however, local firms usually have greater discretion, giving the MNC more room to choose. Also, when it comes to benefits, there are at least some, especially long-term benefits such as retirement and pension plans, on which the MNC is likely to want to maintain internal consistency and equity to the extent that is possible.

When it comes to *Gender Composition*, local norms tend to be even more diffuse than is the case with *Benefits*. While there certainly are laws in some countries against discrimination on the base of gender, these laws are hard to enforce. Also, in some countries it is socially and politically correct to have broad-based participation by women in the workforce, whereas in others, women are still excluded from participating in certain jobs. In most situations, an MNC affiliate is likely to try and adhere to local norms. Yet parent practice will continue to serve as an important influence because the parent may be uncomfortable with placing women in positions of responsibility, especially if they are not used to that in their own environment. Moreover, even if the parent wanted to change its practice to more closely resemble local practice, it may take some time to do so.

With respect to *Training*, firms again will feel pressures in both directions. *Training* needs of different workforces may vary depending upon local conditions.

Also, in order to compete effectively, MNC affiliates will need to provide opportunities for their employees to enhance their human capital that are comparable to what local competitors offer. Both these considerations create pressures to conform to local practices. However, there are countervailing forces because many firms have corporate-wide policies regarding employee training, as well as management philosophies that favor certain types of training, creating pressures for their affiliates to adhere to parent practice.

MNC affiliates are less likely to conform to the practices of their local competitors when it comes to the extent to which bonuses are used in executive compensation (*Executive Bonus*). This is because there are likely to be greater concerns of internal equity when it comes to the compensation of senior executives. Executives are also the class of employees most likely to be transferred or rotated across the various affiliates of the MNC, making it more important to maintain consistency across the MNC. Of course, an MNC affiliate will face some pressure to conform to local practices, especially if it wishes to recruit talented executives in a competitive local labor market. But here too, as in the case of *Training* and *Gender Composition*, local norms tend to be diffuse and broad, leaving the MNC with greater flexibility to respond to the need for internal consistency.

With respect to the extent of *Participation* in executive decisionmaking, the pressure to conform to local practices is likely to be the weakest. No doubt if the MNC is operating in an environment where executives are used to having a great deal of voice in key decisions, they must to some extent respond to this expectation in order to attract and keep satisfied the best local talent. But executive decisionmaking is not an area in which the MNC is likely to deviate too much from its parent practice because it speaks to the most critical processes of strategic choice and resource allocation, topics about which the parent is likely to attach a great deal of importance, and on which it often retains direct influence.

In sum, HRM practices for which there are well-defined local norms and which affect the rank-and-file of the affiliate organization are likely to conform most closely to the practices of local competitors. Practices for which there are diffuse and poorly defined local norms, or which are seen as being critical to maintaining internal consistency or arriving at critical decisions, are less likely to conform to local norms.

The foregoing discussion has hypothesized differences among HRM practices, but has treated all affiliates alike. In fact, not all affiliates should be expected to adhere equally to local practices; some may face stronger pressures to conform to local practices while others face stronger pressures to conform to parent practices. Affiliates are likely to vary systematically in the degree to which they resemble local practices according to specific contextual variables. These variables can be conceptualized as shown in Figure 1.

One set of contextual factors that can influence an affiliate's conformance to local practices is the extent to which the affiliate is embedded in the local environment. The extent of local embeddedness depends upon factors such as the history of the affiliate including its method of founding (whether greenfield or by acquisition) and its age. Also important are factors such as the size of the affiliate, the extent to which it is dependent upon local inputs, and the extent to which it is subject to pressure from local institutions such as unions and governmental bodies. We would expect that the greater the extent to which the affiliate is embedded in the local environment, the more it will take on the practices that prevail locally.

A second set of factors that can influence an affiliate's conformance to local practices are the flows of various resources between the parent and the affiliate, such as capital, information and technical experts. We would expect that the greater these flows, the stronger will be the influence of the parent, and the less the affiliate will conform to local practices.

Characteristics of the parent are a third set of factors that will affect the extent to which an affiliate will conform to local HRM practices. One such factor is the culture of the country in which the parent is located, and how that differs from the culture in which the affiliate is embedded. The greater the cultural distance between the parent and affiliate countries, the less the affiliate will conform to local practices. On the other hand, the greater the parent's international experience and exposure to operating abroad, the more likely it will be to adopt a cosmopolitan attitude and let its affiliates adopt local practices. Another parent characteristic that is important is its orientation towards control. As Egelhoff [1988] has observed, some MNC parents control their subsidiaries more tightly than others. We would expect that the more controlling the parent, the less likely it will be that affiliate practices will resemble local practices.

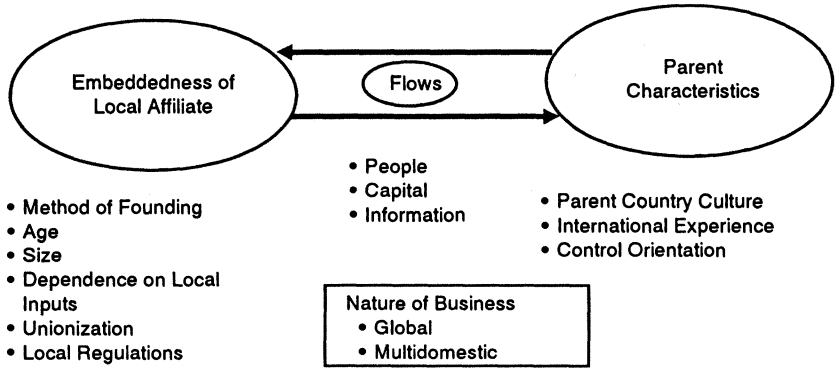
Finally, the nature of the industry in which the affiliate operates can also have a bearing on the extent to which its practices resemble those of local competitors. One would expect, for instance, that the pressure to conform to local norms would be greater if the affiliate were doing business in a multidomestic industry as opposed to a global industry [Porter 1986; Prahalad and Doz 1987].

In order to test some of these theoretical propositions we investigated a number of hypotheses, as discussed below.

Factors Related to Local Embeddedness

Method of Founding. Affiliates are founded as greenfield investments or through acquisition. Affiliates founded as greenfield investments are typically founded by MNC employees who seek to replicate key features of the parent company [Brooke and Remmers 1970; Bartlett and Ghoshal 1989]. On the other hand, affiliates founded as independent firms and only later acquired by the MNC may remain relatively similar to local firms. Entry strategy therefore serves as a proxy for the effects of organizational imprinting

FIGURE 1
Contextual Factors that Affect Affiliate HRM Practices



[Stinchcombe 1965] and organizational inertia [Hannan and Freeman 1977, 1984], as MNC affiliates initially molded in the image of their parent are expected to retain that similarity in subsequent years. The hypothesis can be stated as follows:

Hypothesis 3: Resemblance to local HRM practices is greater for acquired affiliates than for greenfield affiliates.

Affiliate Age. The effect of imprinting, even if it is initially strong, may be expected to diminish over time, as affiliates increasingly come to resemble the local environment. We can therefore hypothesize a relationship between the resemblance to local HRM practices and time since founding:

Hypothesis 4: Resemblance to local HRM practices is positively related to the age of the affiliate.

Affiliate Size. The effect of an affiliate's size on its adherence to local HRM practices is indeterminate. On one hand, large affiliates may be better able, given their resources, to withstand pressure to embrace local practices. On the other hand, larger affiliates may find themselves more in need of resources from the local environment, and may be more dependent upon hiring local employees, placing them under greater pressure to adhere to local practices. We will test the effect of affiliate size, measured by the number of employees, as follows:

Hypothesis 5: Resemblance to local HRM practices is positively related to the size of the affiliate.

Local Resource Dependency. Affiliates receive inputs, such as raw materials and intermediate parts, from other units of the MNC, as well as from the local environment. If an affiliate depends heavily upon the local environment for needed inputs, it may be more likely to adopt management practices characteristic of the local environment.

Hypothesis 6: Resemblance to local HRM practices is positively related to the affiliate's dependence upon local inputs.

Union Representation. Affiliate HRM practices may be affected by a number of local institutions. Of these, one of the strongest influences may come from labor unions, which can force an affiliate to conform to specific practices. We would therefore expect that if an affiliate's employees are represented by a union, its HRM practices may be very close, or even identical, to those of other local firms.

Hypothesis 7: Resemblance to local HRM practices is greater for affiliates with local union representation.

Regulatory and Other Local Pressures. Affiliate HRM practices may be affected by a number of local institutions other than unions, including government regulations, trade associations, consumer interest groups and other community organizations.

Hypothesis 8: Resemblance to local HRM practices is positively related to the degree of pressure placed on affiliates by local institutions.

Factors Related to Parent-Affiliate Flows

Presence of Expatriates. MNC affiliates are composed of host-country nationals and expatriates. Researchers have found that expatriates often act as "carriers" of culture in MNCs [Edstrom and Galbraith 1977; Lincoln, Olson and Hanada 1978], tending to introduce in the affiliate some features of the parent country culture. Accordingly, we would expect MNC affiliates with a high presence of expatriates to tend relatively more to resemble their parent firms, and conversely, for affiliates composed almost exclusively of host-country citizens to adhere closely to the practices of the local environment.

Hypothesis 9: Resemblance to local HRM practices is negatively related to the presence of expatriates.

Dependence on the Parent. MNC affiliates may be more or less dependent on the parent for various types of inputs, which include different types of know-how [Rugman 1979; Gupta and Govindarajan 1991]. We would expect affiliates that are more reliant on the parent for technical and managerial know-how to be more heavily influenced by parent practices, and hence less closely to resemble local firms.

Hypothesis 10: Resemblance to local HRM practices is negatively related to the frequency with which the affiliate depends upon the parent for technical and managerial know-how.

Communication with the Parent. The executives of some affiliates may be frequently in communication with members of the parent organization, whereas others may tend to communicate less often. We would expect that the more frequent the communication, the more likely it is that affiliate executives will be influenced by parent practices [Bartlett and Ghoshal 1989].

Hypothesis 11: Resemblance to local HRM practices is negatively related to the frequency with which the members of the affiliate communicate with the parent.

Factors Related to Parent Characteristics

Parent Country Culture. A substantial body of research has shown that management practices are influenced by national culture [Hofstede 1980; Laurent 1983; D'Iribarne 1989]. Similarly, the culture of an MNC parent may affect the management of its foreign subsidiaries, as has been shown in the case of Japanese MNCs [Tsurumi 1986] and Swedish MNCs [Hedlund and Aman 1984]. Just as national culture has been shown to have a significant effect on entry strategy [Kogut and Singh 1988], we might expect a similar effect on the affiliate's management practices subsequent to entry.

Hofstede [1980] developed four indices that operationalized dimensions of national culture. Following Kogut and Singh [1988], we have used a composite index of these four dimensions as a proxy for the overall distance between the parent country and the host-country culture (*Culture Distance*). Because affiliates face a dual pressure to resemble both local practices and parent practices, we hypothesize that when *Culture Distance* is high, affiliate practices will be less like those in the local environment.

Hypothesis 12: Resemblance to local HRM practices is negatively related to the *Culture Distance* between the parent country and the host country.

International Experience of Parent. As Franko [1976] and Bartlett and Ghoshal [1989] have noted, an MNC that establishes an affiliate abroad may at first seek simply to replicate its home country practices. Stopford and Wells [1972] suggest, on the other hand, that with greater international experience, MNC parents may develop a more cosmopolitan and less parochial perspective. Such an attitude, we hypothesize, may well lead to a greater acceptance on the part of the parent for affiliates to adopt practices that resemble those of their local competitors.

Hypothesis 13: Resemblance to local HRM practices is positively related to the extent to which the parent has international experience.

Control Orientation of the Parent. A considerable body of literature documents the differences among MNCs in terms of the control orientation of the parent (see Egelhoff [1988] for an extensive review). The headquarters of some MNCs exercise much tighter control over their subsidiaries than others, thereby influencing more directly decisionmaking in strategy, marketing and other functions including human resource management. We would expect that affiliates with greater autonomy are more likely to adopt local practices. Conversely, we would expect that if the parent exercised tight control over the affiliate, perhaps taking an active part in decisionmaking or having a rigid set of formal rules and guidelines, the affiliate will be less likely to adopt local practices.

Hypothesis 14: Resemblance to local HRM practices is negatively related to the extent to which the parent exercises tight control over the affiliate.

Factors Related to the Nature of the Business

Global or Multidomestic Industry Scope. The distinction that Porter [1986] has drawn between global and multidomestic industries has an important bearing on what we might expect with respect to an affiliate's management practices. In global industries, where demand is common across countries, where there are strong forces for worldwide integration, and where competition is among global players, we would expect the affiliate to be less concerned with following local custom. Conversely, in multidomestic industries, where national responsiveness is key and where one must confront strong local competitors, it is more likely that an affiliate will embrace local practices [Prahalad and Doz 1987].

Hypothesis 15: Resemblance to local HRM practices is negatively related to the extent to which the affiliate operates in a global industry.

RESEARCH DESIGN AND METHODOLOGY

Testing these hypotheses requires an instrument that can measure intra-organizational phenomena in a large sample of MNC affiliates. Archival data rarely capture intra-organizational practices, and typically do not offer any insight into the relative similarity of affiliate practices, either to MNC parent practices, or to local practices. Field-based research, based on interviews with managers at the affiliate site, would be exceedingly difficult to conduct on the scale required to test these hypotheses. The research instrument best suited to this design is a questionnaire that can gather comparative data about specific practices in a large number of firms.

Since this research design called for comparative judgments, it was imperative that the instrument ask for comparisons that respondents could make with a high degree of accuracy. We solicited the counsel of four affiliate managers, who agreed to serve as pilots. Based on their comments, we altered the scales of some questions, dropped some questions entirely, and amended the wording of others. The final questionnaire was deemed by our pilots to pose questions that affiliate general managers should be able to answer with accuracy.

For our sample, we examined affiliates in the United States of foreign-based MNCs. This sample was ideal for several reasons: it was abundant, it was located nearby, and it was complex enough to provide variation on each independent variable of interest. An initial list of U.S. companies with a foreign-based parent was developed from MacMillan & Co.'s *Corporate Affiliations* database. We reduced the list by keeping only the most abundantly represented industries and parent countries, so as to permit meaningful comparisons across these variables. The final population included 1,055 affiliates in ten 2-digit SIC industries, ranging from food processing to electronics to wholesale trade, and of eight parent countries: Canada, France, Germany, Japan, the Netherlands, Sweden, Switzerland and the United Kingdom. Surveys were sent to the top officer of each affiliate.[1] We received 264 completed questionnaires for a 23.6% response rate. Of these, fully 249 were complete and deemed to be usable for purposes of analysis. The composition of these respondents and rates of response are provided in Table 1.

As noted earlier, we identified six HRM practices for study: the extent of employee benefits (*Benefits*), the extent of annual paid time off (*Time Off*), the use of bonuses to compensate executives (*Executive Bonus*), the degree of participation in executive decisionmaking (Participation), gender composition of management (*Gender Composition*), and the amount of employee training (*Training*). For each of these practices we posed three questions. First, we asked respondents to identify the affiliate's practice on a 5-point scale (*Affiliate Practice*). Second, we asked for a comparison of the affiliate's practice to that of the parent in its home country, using a 5-point scale ranging from "Much Less" to "Much More." This variable was called *Comparison to Parent*. Third, we asked for a comparison of the affiliate's practice to the typical practice of firms with which it competes in the local environment. This variable used the same 5-point scale and was called *Comparison to Local*. Based on responses to these questions, we were able to determine the relative similarity of a given practice both to the parent and to local competitors.

In order to measure differences among practices, we undertook a critical transformation. The need for this transformation is illustrated by looking at one practice: annual days of paid time off to new employees (*Time Off*). When asked to compare their *Time Off* policy with that of their parent, 68.9% of affiliates reported that they offer either Much Less (73) or Less (91) than their parent. The mean reply for *Comparison to Parent* was 2.09 on a scale from 1 (Much Less) to 5 (Much More). *Comparison to Local* provided a very different picture: fully 200 of 239 affiliates (83.7%) reported that their *Time Off* policy was "Same" as local firms, producing a mean score of 3.06. Overall, affiliates reported overwhelmingly that their *Time Off* practices were very close to local practice, and were frequently very different from parent practice.[2]

That affiliate *Time Off* practices are substantially different from parent *Time Off* is accurately captured by the mean score of *Comparison to Parent* (2.09), but only because the great majority of replies were to one side of "Same." In other situations, reliance on the mean of comparison scores

TABLE 1
Distribution of Respondents

a. Distribution of Respondents by Country

	Population Distribution	Respondent Distribution	Rate of Response (%)
Canada	136	28	20.6
France	66	15	22.7
Germany	145	51	35.2
Japan	262	55	21.0
Netherlands	61	10	16.4
Sweden	68	16	23.5
Switzerland	46	18	39.1
Britain	271	56	20.7
Total	1055	249	23.6 (average)

b: Distribution of Respondents by Industry

SIC	Description	Population Distribution	Respondent Distribution	Rate of Response (%)
20	Food Products	57	11	19.3
27	Printing and Publishing	60	15	25.0
33	Primary Metals	49	15	30.6
34	Fabricated Metals	54	17	31.4
35	Industrial Equipment and Computers	168	39	23.2
36	Electrical Equipment and Electronics	134	30	22.3
37	Transportation Equipment	56	10	17.8
38	Instruments	83	22	26.5
50	Wholesale Trade-Durables	315	71	22.5
60	Depository Institutions	79	19	24.0
Total		1055	249	23.6 (average)

could be misleading: one reply of "More" (4) and one reply of "Less" (2) produces the same mean [(4+2)/2=3] as two replies of "Same" (3) [(3+3)/2=3]. To assess more accurately the relative similarity of affiliate practice to parent and local practices, we transformed *Comparison to Local* and *Comparison to Parent* as follows: "Same" was scored as 1; "Less" or "More" as 2; and "Much Less" or "Much More" as 3. These transformed variables were called *Transformed Difference from Local* and *Transformed Difference from Parent*, respectively. They could range from a low of 1 (identical) to a high of 3 (very different), and provided a way to capture the similarity to or difference from parent and local practices.

In addition to our 5-point scale questions regarding management practices, we also posed a number of questions that served as independent variables. These included such things as method and date of founding, number of expatriates, presence of a union, locus of decisionmaking authority in various functions, and many others. The survey thus provided data for most of our independent variables. In a few cases, as will be outlined below, we looked to other sources of data to operationalize our independent variables, as with national culture and whether the industry in which the affiliate operated was global or multidomestic.

FINDINGS

Testing Hypotheses 1 and 2: Evidence of Local Isomorphism

The transformed measures of difference for each of the six HRM practices are shown in Table 2. Taking, for example, *Time Off*, we note that *Transformed Difference from Parent* has a score of 2.09, whereas *Transformed Difference from Local* has a score of 1.16. The difference between these scores is positive (2.09-1.16=.93), meaning that affiliate *Time Off* practices much more closely resemble those of local firms than those of the parent. The third column shows the probability at which we can reject the null hypothesis that the difference between scores is zero. For *Time Off*, the difference between scores is .93, and the null hypothesis can be rejected at $p<.0001$. We can conclude with very high confidence that the amount of paid time off granted to affiliate employees more closely resembles local practice than it does parent practice.

Table 2 shows that all six HRM practices more closely resemble local practices than they do parent practices. Of these, four of the six—*Benefits, Time Off, Training,* and *Gender Composition*—are significantly closer to local practice than they are to parent practice. The two that stand apart are *Executive Bonus* and *Participation*. For *Executive Bonus*, affiliate practice is almost equal in its resemblance to local practice (1.64) and to parent practice (1.68); the slightly greater similarity to local (.04) is not statistically significant. Similarly, for *Participation* the resemblance to local firms (1.74) is virtually the same as the resemblance to the parent (1.76). If we take the average of these six HRM practices as an overall measure, we find that affiliate HRM practices are significantly closer to local firms (1.45) than to the parent (1.83). Although internal consistency may be of some importance, it is apparent that overall, HRM practices are primarily shaped by local isomorphism. Hypothesis 1 is therefore supported.

Our findings also support Hypothesis 2. As indicated in Table 2, the extent to which the six HRM practices resemble those of local competitors is ordered as we had hypothesized. Moreover, a test of differences among means revealed that, except for the difference between *Training* and *Executive Bonus*, all the other practices are significantly different from each other in terms of their resemblance to local competitors. This finding is important as it shows a systematic variation across practices consistent with our expectations: HRM practices with precise or mandated local norms most closely resemble local practices, whereas those HRM practices that have to do with executives

TABLE 2
Transformed Differences:
Difference from Parent* and *Difference from Local

	N	Mean	Probability
Time Off			
Difference from Parent	219	2.09	
Difference from Local	220	1.16	
		.93	.0001**
Benefits			
Difference from Parent	215	1.80	
Difference from Local	212	1.30	
		.49	.0001**
Gender Composition			
Difference from Parent	212	1.83	
Difference from Local	203	1.38	
		.45	.0001**
Training			
Difference from Parent	212	1.75	
Difference from Local	208	1.54	
		.21	.0001**
Executive Bonus			
Difference from Parent	206	1.68	
Difference from Local	199	1.64	
		.05	.3844
Participation			
Difference from Parent	220	1.76	
Difference from Local	191	1.74	
		.02	.8653
Average of HRM Practices			
Difference from Parent	229	1.83	
Difference from Local	226	1.45	
		.38	.0001**

**$p<.01$

or speak to the internal decisionmaking of the firm tend relatively more to resemble the parent's practices.

Testing Hypotheses 3-15: The Effects of Contextual Factors

Hypotheses 3 through 15 test whether the general adherence to local HRM practices is consistent across all affiliates, or whether it varies according to specific independent variables. These hypotheses were tested using an analysis of variance procedure to determine the effect of the independent variables on the dependent variable, the average of all six HRM practices. Table 3 reports the direction of the coefficient as well as the significance of the effect.

Hypothesis 3 tested the effect of founding. The independent variable was dichotomous: zero if a greenfield affiliate and one if acquired. As shown in Table 3, acquired affiliates, as predicted, have a closer resemblance to local practices, and the effect is significant at $p<.02$. Hypothesis 4 is not supported,

TABLE 3
The Effect of Contextual Factors on the Extent to Which Affiliate HRM Practices Resemble Those of Local Competitors

Contextual Factors		Direction of Hypothesized Effect	Significance of ANOVA Results
I. Local Embeddedness			
Hyp 3:	Founded by Acquisition	Positive	.02*
Hyp 4:	Age	Positive	.42
Hyp 5	Size	Positive	.71
Hyp 6:	Local Dependence	Positive	.05*
Hyp 7:	Unionization	Positive	.06+
Hyp 8:	Regulatory Pressures	Positive	.56
II. Flows			
Hyp 9:	Presence of Expatriates	Negative	.01**
Hyp 10:	Resource/Know-how Flows from Parent	Negative	.12
Hyp 11:	Communication Flows	Negative	.01**
III. Parent Characteristics			
Hyp 12:	Cultural Distance from Affiliate	Negative	.09+
Hyp 13	International Experience	Positive	.58
Hyp 14:	Control Orientation	Negative	.48
IV. Nature of Business			
Hyp 15:	Industry Scope	Negative	.76

+$p \leq .10$
*$p \leq .05$
**$p \leq .01$

suggesting that time since founding explains little about adherence to local practices. Taking Hypotheses 3 and 4 together, we can infer that greenfield affiliates are not only relatively less like local firms at the time of founding but also persist in their difference, suggesting the presence of organizational inertia. Similarly, Hypothesis 5 is not supported, as affiliate size, operationalized as the number of affiliate employees, had no clear relationship. This outcome is not surprising given that affiliate size is likely to have an ambiguous effect on adherence to local practices.

Hypothesis 6 examined the effect of physical product flows, using as a proxy the percentage of such inputs received from local sources. Results were in the expected direction and significant at $p<.05$, making plain that affiliates embedded in the local environment in terms of physical product flows tended more closely to resemble local firms for HRM practices. Hypothesis 7, which tested the effect of unions, was in the hypothesized direction and marginally significant at $p<.10$, suggesting that the presence of a union had some effect on the adoption of HRM practices. Hypothesis 8 sought to move beyond unions and examine more broadly local pressures for conformity. Here, a scale was constructed to capture the average extent to which affiliates felt pressured by three institutional forces: local government regulations, trade associations and consumer groups. We predicted a positive relationship, but no significant effect was found. Whereas a labor union might be effective in stipulating at least some HRM practices, the more diffuse effect of pressure from outside organizations had no apparent relationship with an affiliate's resemblance to local practices.

The fact that Hypothesis 7 showed only marginal significance, and that Hypothesis 8 revealed no significant effect, suggests that most affiliates are not coerced into adopting local practices. Rather, the overwhelming tendency of affiliate HRM practices to resemble local practices may better be understood as normative or mimetic in nature: affiliates consistently seek to adopt local HRM practices although they are not compelled to do so. As an example, consider Novotel New York, a large hotel in midtown Manhattan owned by the French lodging giant, ACCOR. Novotel New York is one of very few non-union hotels in Manhattan; yet, in order to hire talented employees and to retain their services, it adopted many of the practices of union hotels [Rosenzweig and Raillard 1992]. In this case, and perhaps in many others like it, an affiliate chose for competitive reasons to adopt local practices even in the absence of coercion.

Shifting our analysis from embeddedness within the local environment to flows between the MNC parent and the U.S. affiliate focused attention on a different set of dynamics. Hypothesis 9 tested the effect of expatriates, operationalized as the percentage of affiliate employees who were expatriates. As shown on Table 3, the effect was in the predicted direction and was highly significant at $p<.01$. Affiliates with a relatively high level of expatriates were significantly more like their parent in HRM practices than were affiliates comprised exclusively, or almost exclusively, of American employees. For Hypothesis 10, we sought to capture the affiliate's dependence on the MNC parent for technical and managerial know-how. Affiliate managers were asked to rate their dependence on the parent on a 5-point scale ranging from highly independent to highly dependent for product know-how, process know-how, and managerial know-how. The average of these three was used as the independent variable.[3] Results were in the predicted direction but short of significance at $p=.12$. By contrast, Hypothesis 11, which tested the effect of close communication between affiliate and parent managers, measured by the frequency of communication, was in the expected direction and significant at $p<.01$. Taken together, Hypotheses 9-11 provide support for the importance of ongoing flows between parent and affiliate as a determinant of affiliate HRM practices. Rather than emphasize static factors such as size or external factors such as regulatory pressures, the lifeblood that supplies the affiliate with people and ideas is found to be significant as an influence on the adoption of HRM practices.

The effects of MNC parent characteristics were tested in three subsequent hypotheses. Hypothesis 12 tested the importance of *Culture Distance.*

Drawing on the work of Kogut and Singh [1988], we used a scale that measured the difference among countries based on an index of Geert Hofstede's four dimensions of work-related values. The effect was in the predicted direction but only significant at $p<.10$, providing only weak support for this hypothesis. Since we expected a stronger effect, we undertook a further examination of the effects of parent nationality, described below. The international experience of the MNC, tested in Hypothesis 13, was operationalized as the percentage of the MNC's total sales that came from outside the home country—the higher this percentage, the greater the firm's international experience, and the more we would expect the MNC to take a cosmopolitan view of its affiliate's practices. This hypothesis revealed no significant findings whatsoever. Hypothesis 14 tested the effect of the degree of parent control over affiliate decisionmaking, using as a measure the average of scores for several functional areas—marketing, corporate strategy, R&D, financial control, and human resources. We hypothesized that higher parent control (and therefore lower affiliate autonomy) would result in greater similarity to the parent's HRM practices, but found no empirical support. At first glance this was surprising—should we not expect higher degrees of control to be associated with adherence to the parent's HRM practices? But in fact, previous studies (see Egelhoff [1988] for several examples) have tended to focus on an affiliate's autonomy as an outcome rather than as a cause. To the extent that autonomy has been studied as a determinant of affiliate behavior it has been found to be a positive factor in predicting the affiliate's innovativeness. But there are few studies that have directly examined how autonomy affects specific management practices. The findings of this study suggest that affiliate autonomy has little additional effect in shaping its specific HRM practices. However, we feel that future research should explore this finding more carefully.

Finally, Hypothesis 15 tested for a difference between global and multidomestic industries. Following Kobrin [1991], who classified industries in terms of their degree of global integration, we classified our industries as either global or multidomestic, placing into the former category industries such as electrical equipment, instruments, and transportation equipment, and into the latter category industries such as food products and primary metals. As an independent variable, however, this dichotomous variable revealed no significant pattern. A number of variables mentioned above—founding, presence of affiliates, frequency of communication—may shape an affiliate's HRM practices, but the nature of the industry in which it operates adds little to our understanding.

The results of Hypotheses 1-15 allow us to reach several important conclusions. First, as shown in Table 2, the 249 U.S. affiliates of foreign-owned MNCs in this sample adopt HRM practices that closely resemble those prevalent in the local environment. From this baseline, however, practices that affect the rank-and-file and are subject to clear local norms tend more closely to resemble local practices, whereas those that affect executives and affect internal decision processes are relatively closer to the parent. In addition, we have found that specific independent variables affect the degree to which affiliate practices resemble local practices. Affiliates founded by acquisition and dependent upon the local environment for inputs tend more closely to resemble other local firms in their HRM practices. By contrast, affiliates with high levels of expatriates and in close communication with their parent tend, on the margin, more closely to share the practices of their parents.

A Further Exploration of Differences According to Parent Nationality

Of the independent variables tested above, only Hypothesis 12, which tested the effect of parent country culture, allowed us to compare affiliates of different parent nationality, and the result was only marginally significant. It is possible that the nationality of the parent firm is not, by itself, an important influence on affiliate HRM practices; alternately, we might question whether parent nationality is adequately captured by this scale. To pursue the matter more directly, we set aside the proxy of *Culture Distance* and examined directly affiliates according to their parent nationality.

Table 4a shows the *Transformed Difference from Local* for each practice, broken down by parent country. Scheffé's tests were performed to determine which countries varied significantly from the others. For the most part, countries were narrowly distributed around the mean, with relatively few standing apart. The only exception was Japan: its average score of 1.56 was significantly higher (p<.01) than the mean of 1.45, with the seven other countries between 1.34 and 1.46. The practices which most contribute to this difference are *Time Off* and *Gender Composition*; in both instances, Japanese affiliates were less like local firms than affiliates of other parent countries.[4] This finding is interesting in light of statements that Japanese MNCs seek to fit in to local conditions, hoping to attract as little attention to themselves as possible [Negandhi, Eshgi and Yuen 1985; Kobayashi 1982]. Although they may indeed seek to take on U.S. HRM practices, in fact they adhere to U.S. practices less than do the affiliates of other parent countries. Especially with regard to *Time Off* and *Gender Composition*, they are significantly different.

One illustration can be found in the case of Mitsui Ltd. (U.S.A.), the Japanese *sogoshosha* that in the 1980s undertook a series of small acquisitions of U.S. animal nutrition ingredient firms. At one such acquisition, the former Animal Nutrition Division of Diamond Shamrock located in Louisville, Kentucky, American employees noted that acquisition had brought about very few changes—in almost all ways the factory retained the HRM characteristics of an American firm. But there was one exception: Mitsui imposed a limit on annual vacation of four weeks, justifying the action by noting that Mitsui allowed no more than four weeks of annual leave anywhere else in the company, and would apply that rule to its newly acquired American plant, as well.

TABLE 4
Comparison of Mean Difference

	Time Off	Benefits	Gender Cmp	Training	Executive Bonus	Participation	Average
a. Comparison of Mean Difference from Local							
Canada	1.20	1.29	1.25	1.68	1.70	1.62	1.46
France	1.15	1.17	1.42	1.20+	1.60	1.67	1.39
Germany	1.25+	1.34	1.32	1.49	1.47+	1.77	1.45
Japan	1.26*	1.24	1.61**	1.62	1.79	1.79	1.56**
Netherlands	1.00	1.13	1.25	1.67	1.75	1.75	1.39
Sweden	1.06	1.31	1.19	1.60	1.64	1.64	1.37
Switzerland	1.07	1.46	1.21	1.54	1.42	1.58	1.34
U.K.	1.07+	1.37	1.42	1.48	1.69	1.81	1.43
Average	1.16	1.30	1.38	1.54	1.64	1.74	1.45
b. Comparison of Mean Difference from Parent							
Canada	1.40**	1.56*	1.60+	1.48*	1.25**	1.50*	1.47
France	2.23	1.77	1.77	1.77	1.82	1.69	1.85
Germany	2.56**	1.96*	1.83	1.81	1.50+	1.98*	1.98**
Japan	1.61**	1.52**	1.98+	1.83	1.82	1.56*	1.72*
Netherlands	2.75**	2.25*	1.75	1.78	2.00	1.75	1.98
Sweden	2.63**	2.19**	1.93	1.93	1.88	1.81	2.06**
Switzerland	2.25	1.93	2.00	1.64	1.79	1.80	1.92
U.K.	2.08	1.83	1.75	1.75	1.76	1.90+	1.86
Average	2.09	1.80	1.83	1.75	1.68	1.76	1.83

+$p \leq .10$
*$p \leq .05$
**$p \leq .01$

The relative consistency across parent countries shown on Table 4a reflects the fact, discussed earlier, that affiliates tend in general to adhere to local HRM practices. We would expect, meanwhile, that adherence to local practices is achieved at the expense of similarity to parent country practices; that is, as an affiliate adopts U.S. HRM practices, it finds itself relatively unlike its parent. And to the extent that these parent countries differ from each other in their HRM practices, we would expect to find significant patterns in the degree to which affiliate practices differ from parent country practices.

This is confirmed in Table 4b, which shows *Transformed Difference from Parent* by parent nationality. Here we find striking patterns according to parent nationality. Compared to the overall mean of 1.83, Canadian affiliates are by far the closest to parent practices, with a score of 1.47. Canadian affiliates are able to adhere to U.S. practices without having to deviate greatly from parent in Canada practices, reflecting the fact that HRM practices in Canada are relatively similar to those in the U.S. At the other extreme, the affiliates with greatest dissimilarity to their parents were German and

Swedish, with scores of 1.98 and 2.06, respectively. At first these scores seem odd—if Canadian affiliates show the lowest difference from parent, might Japanese affiliates not be expected to show the highest? But at 1.72, Japanese affiliates are actually *below* the mean, indicating relatively greater similarity to the parent country. The explanation for these scores is twofold. First, as noted above when discussing Table 4a, Japanese affiliates tend least to adhere to U.S. practices. They instead tend to retain a number of Japanese practices, as reflected by the lower scores on Table 4b. Second, the high scores of German and Swedish affiliates reflect in large part two practices: *Benefits* and *Time Off*. For these practices, adherence to U.S. practices makes German and Swedish affiliates far different from the very generous policies of their home countries, whereas adherence to U.S. practices by Japanese affiliates demands relatively less deviation from parent country practices.

CONCLUSIONS

We began this study with an interest in understanding the forces that shape specific management practices in the affiliates of MNCs. Focusing on HRM practices in U.S. affiliates, we determined, as a first conclusion, that they tend primarily to resemble local practices. More importantly, we demonstrated that human resource management is not a monolithic function, but consists of practices which differ in their relative resemblance to local practices and to parent practices. These findings offer support for the view of MNCs as a nexus of differentiated practice, with specific practices shaped, to varying extents, by different forces. In addition, we demonstrated that specific independent variables have significant effects on HRM practices overall, with the most important being founding, dependence upon the local environment for inputs, presence of expatriates, and frequency of communication. Finally, we have shown specific tendencies according to parent nationality.

To what extent can these findings be generalized? All too often, empirical findings are treated as implicitly universal, without appropriate circumspection. Because this study has examined HRM practices of MNC affiliates in the United States, we should ask ourselves two questions: first, would these results hold for other functions as well as human resource management? And second, would these results hold for affiliates in countries other than the United States?

Regarding functions other than human resource management, one of the authors has elsewhere presented findings about MNC affiliate practices in four functions: human resource management, marketing, financial control, and manufacturing [Rosenzweig 1994]. Whereas HRM practices are most strongly influenced by local isomorphism, it was found that marketing and manufacturing practices also tend to resemble local practices, although to a distinctly lesser degree than HRM, but that financial control practices more closely adhere to parent practices, and are therefore shaped mainly by a need for internal consistency in the MNC. As in the present study, the mode of entry was an important influence, and the dependence upon local sources of inputs was especially important for marketing and manufacturing, but it was not found that the presence of expatriates had a significant effect for any practice other than HRM. Thus, independent variables were found to exert differing pulls on various functions, lending further support to the view of a multinational corporation as a nexus of differentiated practices.

The data from this study do not allow us to determine whether MNC affiliates in countries other than the United States exhibit the same characteristics concerning HRM practices. We are left to speculate: does the United States for some reason emit an especially strong isomorphic pull for HRM practices, or is pressure to adhere to local practices robust across countries? Because the United States is relatively less replete with HRM regulations than many other industrialized countries (for example, *betriebsrat* work councils in Germany, work rules in Sweden, and extensive national holidays in France), we may hypothesize that there is at least as much pressure for local isomorphism in other industrialized countries as that which we have found in the United States. Conversely, would the foreign affiliates of American MNCs adopt local HRM practices to the same extent that MNC affiliates in the U.S. have adopted local U.S. practices? Without advancing reasons why American MNCs should behave differently than the MNCs examined in the present study, it would not be prudent to generalize beyond what the data in this study can support. Indeed, conducting a study of management practices in foreign affiliates of U.S. MNCs would be a valuable complement to this study.

As a final note, this study enables Americans to compare their HRM practices with those prevalent in other industrialized countries. An interesting picture emerges as we infer from these data: compared to MNCs in other countries, U.S. firms overall offer less paid time off and provide a lower percentage of benefits, but have a higher proportion of women in management, than firms from several other countries. Although institutional pressure and inertia surely make rapid change difficult, managers in U.S. firms should at least be moved to question the practices they often assume to be "normal," and, where appropriate, would do well to ask whether the practices that prevail elsewhere could be of use to them.

These findings also provide an important perspective to the continuing debate about the growing levels of foreign direct investment in the United States. According to the U.S. Department of Commerce, more than 5% of the labor force now works for affiliates of foreign-based firms. In recent years, Americans have voiced ambivalence about this trend and expressed concern about "working for foreign bosses" (e.g., Fucini & Fucini [1990]). Although this study has not addressed the full range of concerns that Americans face when working for affiliates of foreign-based MNCs, which include issues of career advancement as well as racial discrimination, the evidence presented here makes plain that for a number of important HRM practices, working for the affiliate of a foreign-based MNC is much like working for a typical U.S. company. Concerns about conforming to "foreign" work rules and HRM practices appear to be exaggerated—for the several human resource practices included in this study, at least, adherence to local practices is the dominant influence.

NOTES

1. Human resource management was one of four functions about which we sought information. The affiliate's top manager was identified as the person best placed to speak to all of them.

2. This finding is noteworthy in light of recent studies that have shown that American workers receive less paid time off than their counterparts in other industrialized countries [Schor 1992]. Given the large and increasing number of Americans working for affiliates of foreign-based MNCs, it is worthwhile to ask whether these affiliates tend to follow local practices when it comes to paid time off, or whether they adhere to the practices of their parent. Data from this study show that affiliates overwhelmingly follow local U.S. practices.

3. For affiliates in service industries, product and process know-how were deleted.

4. Strictly speaking these are not "Canadian affiliates" or "Japanese affiliates" but "U.S. affiliates of Canadian MNCs" and "U.S. affiliates of Japanese MNCs," respectively. We have used the former terms to avoid the cumbersome phrasing of the latter.

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