

# Journal of Industrial Relations

<http://jir.sagepub.com/>

---

## **The Diffusion of Employment Practices in Multinationals: 'Americanness' within US MNCs in Spain?**

Javier Quintanilla, Lourdes Susaeta and Rocío Sánchez-Mangas

*JIR* 2008 50: 680

DOI: 10.1177/0022185608096804

The online version of this article can be found at:

<http://jir.sagepub.com/content/50/5/680>

---

Published by:



<http://www.sagepublications.com>

On behalf of:



Industrial Relations Society of Australia

**Additional services and information for *Journal of Industrial Relations* can be found at:**

**Email Alerts:** <http://jir.sagepub.com/cgi/alerts>

**Subscriptions:** <http://jir.sagepub.com/subscriptions>

**Reprints:** <http://www.sagepub.com/journalsReprints.nav>

**Permissions:** <http://www.sagepub.com/journalsPermissions.nav>

**Citations:** <http://jir.sagepub.com/content/50/5/680.refs.html>

*Journal of Industrial Relations*

© Industrial Relations Society of Australia

SAGE Publications Ltd,

Los Angeles, London, New Delhi and Singapore

ISSN 0022-1856, 50(5) 680-696

[DOI: 10.1177/0022185608096804]

# The Diffusion of Employment Practices in Multinationals: 'Americanness' within US MNCs in Spain?

*Javier Quintanilla, Lourdes Susaeta*

IESE Business School, University of Navarra, Spain

*Rocío Sánchez-Mangas*

Universidad Autónoma de Madrid and IESE Business School, University of Navarra, Spain

**Abstract:** Drawing on several theoretical perspectives, including institutionalism and strategic choice, this article examines the impact of home and host country national business systems on the diffusion of human resource management practices by American multinational corporations to their subsidiaries in Spain. Our evidence suggests that the tight control that American multinational corporations usually exert over their subsidiaries has recently increased. In most of the case studies, successful implementation of corporate human resource policies has mainly been achieved due to the degree of malleability and openness that characterized the Spanish business system. However, increased control also reflects the legitimacy given to managerial human resource practices originating in the USA and the willingness of host country managers to implement corporate policy. To this extent, it can be argued that subsidiary management plays a critical role in the configuration and implementation of human resource management and industrial relations policies and practices in multinational corporations.

**Keywords:** *diffusion; human resource management; multinationals; national business systems; Spain; USA*

---

Contact address: Javier Quintanilla Alboreca, Professor of Managing People in Organizations, Department of People Management in Organizations, IESE Business School, University of Navarra, Camino del Cerro del Águila, 3. 28023 Madrid. Spain [email: [jquintanilla@iese.edu](mailto:jquintanilla@iese.edu)]

## Introduction

This article explores the debate in the management literature regarding the trends toward homogenization as opposed to the diversity of organizational forms and practices. This debate has been addressed by a large number of disciplines (Guillén, 2001). We centre the study of this phenomenon on the complex relationship between multinational corporations and their subsidiaries. It is based on the findings of empirical research on human resource practices in Spanish subsidiaries of American multinational corporations (US MNCs).

The tension between headquarter (HQ) control and subsidiary autonomy raises the key question of the intersection between the behaviour of globalized MNCs and the persistent variety of national business systems (Ferner and Quintanilla, 2002). According to institutional theory, managerial decisions are shaped by the social context of the firm (DiMaggio and Powell, 1983; Hall and Soskice, 2001) and the 'space' available to actors to contest the nature and meaning of the institutional framework they inhabit (Oliver, 1991; Streeck and Thelen, 2005). The role of the MNCs in national-institutional development is significant, as they act inside and outside higher-level institutional spaces, without being completely determined by them. The MNC is able to function as both a follower and creator of rules (Ferner et al., 2006).

In recent years, a large number of studies have concentrated on the interplay between MNCs, their home and host countries and human resource management (HRM) practices, producing a distinctive line of inquiry within the international HRM field (see for example Almond et al., 2005; Quintanilla and Ferner, 2003). This research has identified a 'country of origin' effect, showing that MNCs from different home countries behave in particular ways when managing human resources/industrial relations (HR/IR) as well as in more general company strategies. It has been argued that this country of origin effect reflects the fact that MNCs are embedded in the assumptions, practices and institutions of the national business system from which they emerged (for an extended discussion, see Ferner, 2000). By the same token, Rosenzweig and Nohria (1994) use insights from institutional theory to suggest that MNCs are subject to strong isomorphic pressures in host countries.

However, it is important to be careful in the use of the institutional approach, because it can be deterministic, in the sense that organizations can be seen as passive agents in the interaction with the institutional environment (Wailes et al., 2003). More recently the literature on HR diffusion in MNCs has begun to see institutionalization as a contested process (Edwards et al., 2007). An emerging micropolitical approach focuses on the role that power relationships within MNCs, particularly between corporate headquarters and local level managers, play in shaping the HR diffusion process (Ferner and Tempel, 2006).

Managers in the subsidiary may resist the transfer of some MNC practices that disrupt stable relations with other stakeholders, such as unions and employee representatives, or those that do not fit with the specific features

of their local institutional context. In this sense, managers in foreign subsidiaries may use their embeddedness in their national context to contest the implementation of the corporate HR policies. Thus, while the pressures of distinct institutional frameworks may exert strong forces on the transfer of practices, there is an indeterminacy that provides agents such as local level managers scope for agency within MNCs.

This article focuses on the transfer of HRM practices from US MNCs to Spanish subsidiaries. Our aim is to analyse to which extent HRM practices of the Spanish subsidiaries exhibit distinctively 'American characteristics', to identify whether the Spanish business legacy leaves a resilient imprint on this diffusion process and to explore the role that subsidiary level managers play in shaping the relationship between home and host country effects. We tackle these objectives through the use of detailed case studies. This article is organized as follows: in the next section we analyse the balance between the USA as the home country and Spain as the arena of operations. We then describe our methodological approach. This is followed by the empirical analysis based on the case study firms. The final section offers our main conclusions.

## **The Balance of Home and Host Country Effects: US MNCs in Spain**

### **US Country of Origin Effect: HRM Practices in American MNCs**

The literature on HR/IR policies and practices in US MNCs describes them as highly centralized, formalized and standardized (see for example Child et al., 2000; Harzing, 1999). However, the degree of centralization has been linked to the role performed by the subsidiary within the overall corporation (see for example Doz and Prahalad, 1994). In this sense, recent studies show a move from centralized 'command and control' towards a more collegial network-based decision-making approach in US MNCs (Almond et al., 2005).

Recent comparative institutionalist literature has attributed this country of origin effect in the HR practices of MNCs to their ongoing embeddedness in the business system of their home countries (Clark and Almond, 2006; Ferner, 1997). US MNCs have a characteristic management style rooted in the US national business systems (Ferner, 2000). The main finding in the literature is that US MNCs are highly centralized. This distinguishes them from MNCs from other countries. This control has been traditionally directed towards production, scheduling, pricing, financing and the introduction of new products. American MNCs also stand out in terms of their reliance on financial control mechanisms (Wever, 1995).

Another characteristic of US MNCs is their tendency to transfer practices and policies to their subsidiaries in a highly standardized and formalized manner. In this sense, the degree of standardization of policies found in US firms is higher than in Japanese or European MNCs (Kopp, 1994). Research suggests the HQs of US MNCs consider their best practices as one of the most

important sources of competitive advantage and thus try to transfer practices abroad and to ensure central control over subsidiary adoption of transferred practices. HQs of US MNCs play an important role in setting or influencing policy on payment systems, collective bargaining, communications, union recognition, welfare and training policies (Yuen and Kee, 1993). Accordingly, it might be expected that there is a tendency towards cross-national isomorphism, that is, to seek analogous features in their foreign and home operations, a process which can be called 'Americanness' (Clark and Almond, 2006).

However, the degree of centralization is not strictly imposed in a mechanistic manner by the HQ, but instead emerges through a process of negotiation between the HQ and the subsidiary. Recent research has suggested that this balance between centralization and autonomy depends on the bargaining power of the host-country managers (Ferner et al., 2004). Consequently, the 'Americanness' is likely to vary across subsidiaries due to the constraints forced by different institutional structures in different countries of operation.

Another key issue is that American firms come originally from an environment characterized by weak trade unions and a tradition of managerial authority over labour (Jacoby, 1997). Thus, it is not surprising that when operating in more regulated systems such as Spain or Germany, they appear to be uncomfortable and sometimes hostile to regulations and institutions governing employee representation and pay (Ferner, 2000).

Finally, US MNCs are regularly characterized as HR/IR 'innovators' (e.g. Muller, 1998), especially in areas such as performance related pay, job evaluation and employee share ownership schemes. Due to the 'dominance effect' (Smith and Meiksins, 1995), US MNCs often tend to diffuse practices to more submissive hosts including Spain. These less dominant hosts are often receptive to learning and implementing these practices (Ferner et al., 2006).

### **Host Country Effect: Spain as a Theatre of US MNC Operations**

The literature on HR practices of MNCs has also highlighted the importance of the host country. This section provides a brief overview of some of the salient features of Spain's national business system and the extent to which it influences the HR/IR practices in the subsidiaries of US MNCs.

#### **Weight of US MNCs' Investment in Spain**

The percentage of industrial turnout controlled by foreign companies in Spain is 42 percent (Molero and Buesa 1996), which is high in comparison with other western countries. This can be largely explained by the high proportion of inbound investment by American MNCs. This was particularly the case during the period 1960–79 when the USA supplied a third of new foreign direct investment (FDI) into Spain. Despite increases of investment by European MNCs after Spain's entry into the EU, the USA remains the greatest source of FDI in this country. The Spanish Bureau of Investment reports that there are approximately 600 US companies in Spain, which account for 7 percent

of GDP. Concentrated mainly in the areas around Madrid and Barcelona, US-owned firms are key players in a variety of sectors, including information technology (IT), consulting, chemicals, pharmaceuticals, and the auto industry (Edwards et al., 2006).

### **The Spanish National Business System: Opportunities and Constraints**

For much of the period after the Spanish Civil War, Spain was under the control of a dictatorship and remained economically backward and internationally isolated. However since 1970, there have been significant changes and Spain is now both politically stable and fully integrated into the international economy.

The removal of restrictions on foreign capital in the 1970s led to a significant increase in MNC investment in Spain. Since the early 1990s, Spanish companies have responded to the increasing arrival of foreign companies and to the creation of a common European market by intensifying their own investments abroad. At the end of 2000, the direct investments made by Spanish companies abroad exceeded those of foreign companies in Spain (Guillén, 2005; United Nations Conference on Trade and Development [UNCTAD], 2003).

Research on MNCs operating in Spain has shown that a key feature of the Spanish business system is its malleability, and therefore its receptibility to new practices and policies (Quintanilla, 1998). While it is possible to identify a distinctively Spanish management style in small and medium-sized enterprises, characterized by a lack of professionalization and paternalism under family ownership (Costa, 1995), this is less pervasive in large and foreign-owned firms.

Rather, foreign capital has been the catalyst of economic advancement since the 1970s. As a result, in the larger firms and more contemporary areas, foreign styles of management are more frequently implemented. The influence of foreign practices on management style has been seen in innovations in the following HRM and IR-related areas: work organization, payment systems, and management training. Moreover, because of the strategic role that many Spanish subsidiaries fulfil for their corporations, they are often in a position to access innovation from their corporate networks (Edwards et al., 2006).

The malleability of the Spanish business system also affects managers in the subsidiaries of MNCs. US-style business schools and their MBA programmes dominate business education and Spanish managers in MNCs often have had business experience in the USA or have worked in a range of MNCs in Spain (Edwards et al., 2006).

## **Methodology and Fieldwork**

Having reviewed some of the available research of US MNCs and the Spanish national business system, the remainder of this article examines the diffusion of HR practices from US MNCs into their Spanish subsidiaries. This research is part of a larger research project carried out by a group of European academics

which examines the influence of the US business system on the management of employment relations in US MNCs in four European countries: Britain, Germany, Ireland and Spain (see Almond and Ferner, 2006).

Our study relies on detailed case studies. We chose this method as the most appropriate tool for examining the complex processes of mutual interaction between MNCs' headquarters and their subsidiaries (Hedlund, 1981) and also between the home and host environments.

The case studies were based on in-depth semi-structured interviews with key participants at different organizational levels. They also included some interviews at corporate and regional levels. Interviews were conducted not only with personnel directors with strategic positions, but also with HR managers with compensation, training, career development and industrial relations responsibilities. In addition, we also interviewed finance and reporting managers, as well as plant and commercial managers. During the interviews, specific emphasis was placed on understanding of the role of the personnel function, the staffing policies, training, compensation, management development, and aspects of the relationship with the unions.

The fieldwork is based on detailed case studies of Spanish subsidiaries of four USMNCs: CPGco (Manufacturing and servicing of consumer and professional photographic equipment); Drugco (Manufacturing of pharmaceutical products); ITco (Manufacturing and servicing of IT equipment) and Business Services (Business consultancy and technical services). For reasons of confidentiality the companies have been assigned pseudonyms. We interviewed 58 managers over a period of two and a half years. Some respondents were interviewed several times in order to improve and clarify the data obtained. An average interview lasted over two hours. Other members of the international team conducted interviews at the headquarters level of these companies and this content has been considered throughout the completion of our study.

The case study sample was selected by combining different criteria such as: workforce size, mode of entry and sector. Workforce size was relevant because of the need for a critical mass of employees sufficient to allow for the study of HR and IR matters. We therefore chose subsidiaries with more than 250 employees. The case studies cover a range of sectors from process- and product-oriented firms (chemical, pharmaceuticals) to service companies (consulting, etc.) including also multi-domestic and global industries. They also include examples of both Brownfield and Greenfield modes of entry (Quintanilla, 1998).

## **Empirical Analysis: Global Convergence and National Idiosyncrasy in Spain**

### **Centralized Control and Standardization versus Subsidiary Autonomy**

Previous analysis (Guillén, 1994) shows the tight control exerted by American HQs over their Spanish subsidiaries in the 1970s and 1980s. This control was

mainly wielded through financial control systems and also through the use of expatriate managers, mainly from the USA. Although in some of the subsidiaries we studied, such as CPGco, the use of expatriates in the top positions is still the norm, this mechanism has sharply declined during the last decade. Rather, centralized control is increasingly sought through the standardization of procedures and the significant use of common information technologies.

Because of the national business system they originate from, American MNCs are usually compelled to achieve short-term financial targets. In one of the firms studied, CPGco, HQ control over its subsidiaries had increased, with a greater focus on short-term results. The Spanish subsidiary attempted to keep up with the latest market variations and revised plans every month in order to reach business and financial objectives. The firm exerted such pressure to control its profits and losses that the HR function tended to be constrained. When there was a gap between targets set and results achieved by the subsidiary, HQ's response was clear:

We do not care if market circumstances have changed. If you need help, we would provide you help, but we want the results that you had already forecast. (Finance Manager, CPGco)

Consequently, the reporting process was seen as long and tedious and local managers complained that: 'Revisions are long drawn out, and processes are as a consequence too bureaucratic' (Finance Manager, CPGco). This tendency towards increasingly centralized control appears in many of the subsidiaries featured in our research. However, some of them – such as Drugco, ITco and Business Services – were developing an increasingly important role inside the MNC, and as a result they were being given greater autonomy in the implementation of policies and practices. These subsidiaries had increased their power inside the MNC and this meant a greater margin of manoeuvre in negotiating the implementation of these practices.

Business Services is a good example: the Spanish affiliate was one of the pillars of the group. It had the greatest market share among all the company's subsidiaries, it was the most profitable subsidiary, and it was ranked third in the number of employees and partners. The senior manager of the Spanish subsidiary stated that:

Although the multinational operates under certain directives until 2012, the Spanish subsidiary has come up with its own plan until 2010 compatible with the world strategy but adapted to how things are done in Spain.

In this case, adaptation to the idiosyncrasies of the Spanish context was possible thanks largely to the 'resource power' of the subsidiary and its strategic role in the company as a whole.

Changes in the degree of centralization or decentralization could provoke tensions as they restructure power relations among different corporate interest groups and distort the resources available to them (Ferner et al., 2004). As a consequence, the centralized approach generates people management dualities leading to inevitable tensions and contradictions (Sánchez-Runde et al., 2003).



Most of the Spanish subsidiaries examined had, on the one hand, to reach corporate HR targets and, on the other hand, suffered financial constraints in achieving them. The following examples illustrate this complex relationship. In Drugco, a company with a non-union approach within the 'welfare-capitalist' tradition (Jacoby, 1997), increasing emphasis was placed on training and employee development and decisions on training policy came directly from the HQ. While the HQs focused on providing its affiliates with high-quality training courses, the subsidiaries did not have enough resources to successfully implement them. The confused outcome was very far from the principles of welfare capitalism underpinning the policies that the HQ was attempting to transfer.

Spanish subsidiary managers at CPGco were likewise required to achieve corporate HR targets, regardless of the financial constraints on them. For instance, training objectives set by corporate HQ had been maintained in spite of cost reductions and the subsidiary had to provide HQ with a detailed report confirming the amount of training given to each employee.

These tensions increase when companies find themselves immersed in restructuring processes that undermine efforts to develop HR policies. One of the subsidiaries analysed faced a major reorganization, and the HR director stated that he planned to resist the changes in every way he could, because the subsidiary did not intend to accept the HQ's arbitrary norm of a 20 percent reduction in the workforce. This policy was applied rigidly across the company's operations, regardless of the profitability of each subsidiary. In some locations, a reduction of 20 percent was regarded as unnecessary by subsidiary managers: in Spain, respondents claimed that an *increase* in the workforce was required. As a result, they felt the HQ had acted indiscriminately and the situation required a more imaginative approach: on one hand, to save the local business, and on the other hand, to keep faith in HQ policy. The HR manager of this subsidiary argued that: 'It is necessary to avoid doing anything that will result in losing our direction or volume'.

In ITco, managers pointed out that the crisis experienced by the company in 1992 and 1993 at corporate level and in the Spanish subsidiary had important effects. Spanish managers explained that the new global CEO initiated a process of globalization and centralization, where layoffs and reorganizations took place as a part of severe cost reductions, ushering in a new short-termist orientation. The emphasis on cost control generated a centralization process especially in the finance function. At the same time, one of the main tools used by the corporation to introduce the new strategy was the establishment of permanent communication with employees. Training and communication campaigns were 'instruments' to make things run as smoothly as possible. This reflected the 'remaining welfare spirit' of the firm, albeit considerably weakened. In other words, communication together with other 'sophisticated' HR techniques was being used to try to minimize the effects of some of the measures introduced by American HQs in their Spanish subsidiaries, and to try to persuade employees of the need for job reductions, control of wages, and so forth.

Another distinctive feature of US MNCs, the integration and standardization of management procedures, is also seen in the Spanish subsidiaries. There was a process of homogenization of HR practices in practically all the subsidiaries. In ITco and CPGco there was a clear attempt by the respective HQs to introduce the same HR practices and instruments worldwide and to ensure that all the company's operations did the same things in the same way. In these companies the tendency was towards a standardization of products and processes in order to make control easier. Once standardized, the consolidation of information would become more feasible. HR policies were very homogeneous but much of the knowledge and understanding concerning practices particular to this company were informal.

The process of standardization has been enhanced by technological developments and new information systems that have allowed HQ to intensify the coordination it exerts over subsidiaries. IT tools have added new functionality for the management of internal controls, offering companies a straightforward, closed-loop solution in reporting and performance management. Implementation of SAP, Peoplesoft or other HR software was intended to increase integration, control and coordination. In this regards the Spanish subsidiaries were ahead of many of other subsidiaries in implementing these systems and the HQs were looking to transfer their knowledge to other subsidiaries in the European region.

In general, the case studies confirm the portrait of centralization and standardization of international HR practices. Nevertheless, the way in which US MNCs exert control over their subsidiaries depends on a wide array of variables, including the way the company has been established, the subsidiary's profitability, the weight and prestige of the subsidiary's managers internationally, their ability to contribute in key areas such as research and development, or to bargain politically.

### **Corporate Culture Influence**

Corporate culture is seen by US MNCs as a tool to transmit behaviour and values to their employees in different countries, enhancing integration and control over subsidiaries. Among the different Spanish subsidiaries analysed we observed the importance given to the transmission of corporate culture. This is significantly different to most local firms. Thus in these subsidiaries it is not difficult to identify 'features' characteristic of the parent company. As a manager pointed out:

We are not provided with any manual of company culture, I cannot describe it, although definitely you can feel it, you perceive that it exists. (Manager at CPGco)

Furthermore, we found many different mechanisms for transmitting corporate culture, including values and mission statements, international staff exchanges, HR corporate guidelines, training programmes, and expatriate rotation.

While Spain is characterized by the 'malleability' of its business system

and for being very receptive to the adoption of 'American management style' practices, the cases did provide evidence of impediments to transfer such practices and cultural misunderstandings which reflect the difficulties of adapting some 'American style' features to the Spanish context. A comment from an HR manager of one of our case studies illustrates this point:

Our corporate culture came directly from the US HQ. The main idea was that the business divisions were in charge of implementing those values and guidelines at a local level but, in practice, HQ decided everything beforehand. As a result, a number of business units showed some reluctance towards something they considered done without any sensitivity. They disagreed with the idea of compulsion.

Moreover, competitive and financial pressures are testing the real strength and soundness of such corporate culture arrangements. Over the past decade, for example, CPGco and ITco had experienced major market transformations in their sector of activity, due to increasingly fierce international competition. This led to major conflicts with employees and their representatives and undermined key elements of the company's traditional welfare capitalist culture:

The market has changed, and CPGco has to change as well. However, the company is made of people, and these people have been living in the same culture for a long period of time, for them it is difficult to change. So, how can you simultaneously balance both messages? (CPGco HR Manager)

In conclusion, the introduction of distinctive corporate cultures by US MNCs was having different consequences in the Spanish subsidiaries and in the management of their HR practices. Nonetheless, the sophistication with which the subject of culture was handled in all the subsidiaries represents a notable difference with respect to local companies. Detailed scrutiny shows that the main efforts to transmit culture were concentrated in the recruitment and development processes. There was a balance between, on the one hand, the malleability of the Spanish business system and its traditional openness towards such imported practices, and on the other hand, some reluctance to adopt mechanically specific forms of an American management style.

### **Substantive HR/IR Issues**

This section presents the initial findings of our research on some specific and substantive personnel issues: industrial relations, payment systems and employment strategies. We argue that the findings are consistent with the view that US companies tend to standardize their HR policies internationally. Our research also sheds light on how, and to which extent, some of the American HR practices transferred by the HQ are shaped by the influence of Spanish business system and the activities of local managers.

We found that in general, the subsidiaries' margin of manoeuvre in HR/IR matters is decreasing. Nevertheless, the prestige and weight of each subsidiary differs greatly from one company to another. Thus, while the Spanish

subsidiaries of Drugco, ITco and Business Services were gaining in influence within the MNCs' overall operations, the small size and limited contribution of the CPGco subsidiary meant that the majority of HR decisions came from European HQ.

### **Industrial Relations**

Given the disjunction between the non-unionized US model and the Spanish one in which unions play a significant role enforced by labour legislation, our research analyses the approach that US MNCs have adopted in Spain to overcome some of the constraints imposed by the Spanish institutional environment. The US MNCs operating in Spain that we studied, while respecting Spanish legislation (the scrupulous fulfilment of local legislation is a common described feature of US MNCs), have taken 'preventive measures' in order to avoid unionism. These avoidance strategies are more part of the general ethos or culture of the firm, rather than taking the form of a written policy.

In this context, US MNCs have been forced to develop more sophisticated HR policies, with the aim of avoiding labour conflicts, notably around concepts of employee involvement and participation. Moreover, in most of the subsidiaries studied, pay levels were well above the market average and were considered as one of the principal measures for avoiding labour conflict.

ITco illustrates this process. The firm was divided into four different companies, each with its own works council. Given their small size, these bodies had to act together in order to coordinate action. Less than 50 percent of the workforce took part in the election of labour representatives, a low proportion compared with other MNCs and Spanish companies. The Workers' Commission (CCOO) was the most important trade union and comprised the majority of the joint works council. In practice, the council had essentially a token role, dealing primarily with routine administrative issues. Moreover, the workforce was paid not only above compulsory collective agreement rates, but also in the top quartile of the labour market, and the majority of the employees were highly skilled and university graduates (55 percent). Together with the marginalization of the works councils, this corporate context helped the subsidiary to avoid labour conflicts. Despite extensive restructuring in the subsidiary, union membership and labour unrest had always been lower than in other MNCs and in similar Spanish companies.

The efforts of Drugco to set up innovative 'welfare capitalist' HR policies were notable, as a means of ensuring workforce loyalty to the corporation and of keeping the danger of unionization at bay. The law states that it is necessary for companies operating in Spain to have representatives of the workers and that these representatives should have the choice of whether to be affiliated to a union or not. The company adopted measures that they referred to as 'preventive medicine'. These included information communication to the staff, the use of employee satisfaction surveys, the policy of offering salaries above the market average, and the establishment of groups of employees to improve

the working environment. Thus they took care of their employees, through the application of sophisticated HR policies, in order to avoid a perceived need for unions. These findings are consistent with the view that American MNCs in Spain regularly try to minimize the influence of trade unions and other collective representation bodies such as works councils, while respecting Spanish labour legislation.

### **Payment Systems**

American MNCs have a long history of innovation in the area of pay and performance management. Payment systems are described as one of the most centralized practices in US MNCs' international subsidiaries (Martin and Beaumont, 1999; Tayeb, 1998). The centralization of pay systems is generally accompanied by the standardization of procedures. Nonetheless, while overall pay systems in subsidiaries tend to be modelled on those of the parent company, specific pay elements such as fringe benefits differ widely among US companies' subsidiaries abroad.

American MNCs have also been innovators in the introduction of appraisal systems and performance-related pay programmes that link employees' performance to company results, which is also the case in Spain. Only in very few cases tensions have arisen between the HQ and the Spanish subsidiaries as a result of the latter seeking more autonomy over pay. At the same time, US MNCs in Spain try to portray themselves as 'attractive employers'.

At CPGco there had been an intensive standardization process in wages systems since the European HQ was set up in the late 1990s. The HR manager explained that:

there are two pay boards at the company worldwide, one in the US and another in Europe. So some disparities appear in wage matters between the US and European HQs that are slowly disappearing.

The HR manager stated that compensation systems had been transferred directly from the US HQ to all subsidiaries:

The HQ not only establishes the salary ranges annually but has also introduced the same documents in all the countries. Issues such as the salary planning sheets that show the employees' salary situation, or the change of status forms, which include the proposals for salary increases, have to be sent to HQ.

Whereas compensation systems are usually standardized, some issues such as fringe benefits and retirement schemes depend more on the individual subsidiary's initiative and bargaining power. For example, in Drugco the HR manager recognized that salary policies were centralized and monitored from Europe and that only 'fringe benefits are introduced at local level. Fringe benefits are different in each country based to a great extent on the individual country's traditions. Only life insurance is compulsory in all the countries'.

Another compensation practice introduced directly by HQs in several subsidiaries were share ownership programmes. Although this kind of system had been introduced in most of the subsidiaries, the role played by subsidiary

management in determining the details of the system to be implemented locally varied widely.

### **Employment Strategies**

The US labour market is characterized by the importance of the external labour market, with higher mobility of managers and non-managerial staff between companies (e.g. Evans et al., 1989). Nevertheless, large US companies have traditionally hired employees using 'internal labour markets' (ILMs), preferring to hire and train their own employees rather than taking them from the external labour market (Handy et al., 1988). This largely reflects the firms' preference for the strategy of 'making' rather than buying managers. Evidence on this point is found in our case studies in the implementation of strong policies for early recruitment of the managerial cohort, extensive succession planning, the systematic development of 'high potential' managers and the opportunities for both functional and international job positions.

In most of the case study subsidiaries, the HR department preferred to recruit university graduates directly, to avoid influences on employees from working in other companies, and to better preserve and transmit the corporate culture. Subsidiaries deployed an array of tools focusing on the graduate entry level and on training programmes and development paths within the company for high potential employees. Practically all of these systems were developed at a corporate level and adapted at local level. For example, Drugco hired people directly from a number of business schools that had previously been approved and validated by HQ. These recruits were subject to tailored development systems. In the words of one Drugco manager:

There is a strong corporate culture that must be transmitted to the employees. We need to hire employees that fit in the organization. Thus, the recruiting process is a key step in the process for us.

He went on to say that:

We have a pool of managers who interview the candidates to ensure that the best candidates are chosen.

This company wanted its employees to stay with it throughout their working lives. This policy was difficult to maintain in crisis situations but the firm avoided making redundancies, instead adopting a policy of freezing managerial salaries. The HR manager stated that: 'The people have a sense of ownership in Drugco and this is important when confronting the ups and downs of the market'. The existence of a strong internal labour market stemmed from a desire to encourage a sense of identity and community in firms such as this of the 'welfare capitalism' type. This tendency is more likely to be found in industries with stable, gradually evolving product markets and with predictable skill requirements, allowing firms to 'grow their own' managers.

Other MNCs, such as ITco and Business Services, often employed the parent company's international development programmes as a retention tool for their best candidates. The HR manager of Business Services explained:

We hire candidates directly from the universities. Afterwards, we have a pre-established development process that includes mostly professional experiences in different departments within the firm. In some ways this is helping us to identify and retain the best ones by offering them an attractive international career.

Practically all the subsidiaries in our research developed internal labour market approaches through the intensive use of corporate systems. However, the financial difficulties and restructuring suffered by most of the firms allowed for a more relaxed implementation of these corporate initiatives, and the case study companies aimed both to 'make' and to 'buy' managerial talent.

## Conclusions

This article has focused on diffusion of HR policies by US MNCs to their subsidiaries in Spain. Overall it demonstrates US MNCs continue to have a tendency to operate in a centralized manner, managing through standardized formal systems, processes and policies. However, it also shows the critical influence exerted by the particular internal management capabilities and resources of the subsidiaries is shaping the development of the HRM systems of these subsidiaries.

Whereas in the 1970s and 1980s higher wages were used to bypass union influence, more recently financial constraints are forcing firms to introduce more sophisticated approaches in order to compete within the local labour market. For example, MNCs seek those employees who are likely to fit in with company culture. Companies have also introduced international development programmes aimed not only at improving employee performance, but also as a retention tool for local high flyers.

Spanish subsidiaries of US MNCs have less and less leeway to develop HR strategies at local levels. HR subsidiary departments concentrate mainly on the implementation and adaptation of mandatory corporate HR strategies and policies to the legal and cultural features of the Spanish business system. These subsidiaries follow standardized processes that are enhanced by the growing introduction of common information technologies. In this sense, we noticed a prevalence of 'corporate policies' in the Spanish subsidiaries, manifested in the high degree of commonality of practices and policies.

While the success of the implementation of corporate HR policies can be attributed to the malleability of the Spanish business system and the legitimacy given to managerial HR practices originating in the US, this article also provides evidence that actions of managers in Spanish subsidiaries also plays a key role in the diffusion process. Pressure exerted by HQs and the legal imperatives of Spain as a host country do effect the room for manoeuvre that local level managers have on many issues. However, this research shows evidence that, despite these constraints, affiliate management plays an important role in determining how corporate level policies are to be implemented. In this regard the findings of this research are consistent with the view that the diffusion of

HR practices in MNCs is the scope for agency, this analysis suggests the need for more research into the micropolitics of MNCs.

### Acknowledgements

Several people in our case study companies made this investigation possible. To them we express our sincere gratitude. Special recognition must be also made to Marta Portillo who participated in this research project for a long time. We are very grateful to Anthony Ferner as well as the referees and editors of this Special Issue for their helpful comments. This article draws on a research project funded through three grants by the Dirección General de Investigación de la Comunidad de Madrid (Spain) within its 'Proyectos de Investigación en Humanidades y Ciencias Sociales' (award 06/0009/2000), Ministerio de Educación y Ciencia within 'Convocatoria de ayudas a proyectos de I+D 2005' (Ref. SEJ2007-03096, award 01/0010/2006) and Fundación BBVA (Ref. 216/06). We also acknowledge expenses and support from IRCO (International Research Center on Organizations) at IESE Business School.

### References

- Almond, P., Edwards, T., Colling, T., Ferner, A., Gunnigle, P., Müller-Camen, M., Quintanilla, J. and Wächter, H. (2005) 'Unravelling Home and Host Country Effects: An Investigation of the HR Policies of an American Multinational in Four European Countries', *Industrial Relations* 44(2): 276–306.
- Almond, P. and Ferner, A. (eds) (2006) *American Multinationals in Europe*. New York: Oxford University Press.
- Child, J., Faulkner, D. and Pitkethly, R. (2000) 'Foreign Direct Investment in the UK 1985–1994: The Impact on Domestic Management Practice', *Journal of Management Studies* 37(1): 141–66.
- Clark, I. and Almond, P. (2006) 'Overview of the US Business System', in P. Almond and A. Ferner (eds) *American Multinationals in Europe*, pp. 37–56. New York: Oxford University Press.
- Costa, M. T. (1995) 'La Empresa: Características, Estrategias y Resultados' [The Firm: Characteristics, Strategy and Results], in J. L. García Delgado, R. Myro and J. A. Martínez (eds) *Lecciones de Economía Española* [Lessons of Spanish Economy], 2nd edn, pp. 285–303. Madrid: Civitas.
- DiMaggio, P. J. and Powell, W. W. (1983) 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields', *American Sociological Review* 48: 147–60.
- Doz, Y. and Prahalad, C. (1994) 'Controlled Variety: A Challenge for Human Resource Management in the MNC', in V. Pucik, N. Tichy and C. Barnett (eds) *Globalizing Management*, pp. 119–35. New York: Wiley.
- Edwards, T., Colling, T. and Ferner, A. (2007) 'Conceptual Approaches to the Transfer of Employment Practices in Multinational Companies: An Integrated Approach', *Human Resource Management Journal* 17(3): 201–17.
- Edwards, T., Gunnigle, P., Quintanilla, J. and Wächter, H. (2006) 'Overview of the Host Business Systems', in P. Almond and A. Ferner (eds) *American Multinationals in Europe*, pp. 57–65. New York: Oxford University Press.
- Evans, P., Lank, E. and Farquhar, A. (1989) 'Managing Human Resources in the International Firm: Lessons from Practice', in P. Evans, Y. Doz and A. Laurent (eds) *Human Resource Management in International Firms*, pp. 113–43. London: Macmillan.



- Ferner, A. (1997) 'Country of Origin Effects and HRM in Multinational Companies', *Human Resource Management Journal* 7(1): 19–37.
- Ferner, A. (2000) 'The Underpinnings of "Bureaucratic" Control Systems: HRM in European Multinationals', *Journal of Management Studies* 37(4): 521–40.
- Ferner, A., Almond, P., Clark, I., Colling, T., Edwards, T., Holden, L. and Muller-Camen, M. (2004) 'Dynamics of Central Control and Subsidiary Autonomy in the Management of Human Resources: Case-study Evidence from US MNCs in the UK', *Organization Studies* 25(3): 363–91.
- Ferner, A. and Quintanilla, J. (2002) 'Between Globalization and Capitalist Variety: Multinationals and the International Diffusion of Employment Relations', *European Journal of Industrial Relations* 8(3): 243–51.
- Ferner, A., Quintanilla, J. and Sanchez-Runde, C. (2006) 'Introduction: Multinationals and the Multi-level Politics of Cross-national Diffusion', in A. Ferner, J. Quintanilla and C. Sanchez-Runde (eds) *Multinationals, Institutions, and the Construction of Transnational Practices*, pp. 1–23. Basingstoke: Palgrave.
- Ferner, A. and Tempel, A. (2006) 'Multinationals and National Business Systems: A "Power and Institutions" Perspective', in P. Almond and A. Ferner (eds) *American Multinationals in Europe*, pp. 10–33. New York: Oxford University Press.
- Guillén, M. (1994) *Models of Management*. London: University of Chicago Press.
- Guillén, M. (2001) 'Is Globalization Civilizing, Destructive or Feeble?: A Critique of Five Key Debates in the Social Science Literature', *Annual Review of Sociology* 27: 235–60.
- Guillén, M. (2005) *The Rise of Spanish Multinationals*. Cambridge: Cambridge University Press.
- Hall, P. A. and Soskice, D. (eds) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.
- Handy, C., Gordon, C., Gow, I. and Randlesome, C. (eds) (1988) *Making Managers*. Avon: The Bath Press, Pitman Publishing.
- Harzing, A. (1999) *Managing the Multinationals: An International Study of Control Mechanisms*. Cheltenham: Edward Elgar.
- Hedlund, G. (1981) 'Autonomy of Subsidiaries and Formalization of Headquarters–Subsidiary Relationships in Swedish MNCs', in L. Otterbeck (ed.) *The Management of Headquarters–Subsidiary Relationships in Multinational Corporations*, pp. 25–78. Aldershot: Gower.
- Jacoby, S. (1997) *Modern Manors: Welfare Capitalism since the New Deal*. Princeton, NJ: Princeton University Press.
- Kopp, R. (1994) 'International Human Resource Policies and Practices in Japanese, European, and United States Multinationals', *Human Resource Management* 33(4): 581–99.
- Martin, G. and Beaumont, P. (1999) 'Co-ordination and Control of Human Resource Management in Multinational Firms: The Case of CASHCO', *International Journal of Human Resource Management* 10(1): 21–42.
- Molero, J. and Buesa, M. (1996) 'Patterns of Technological Change among Spanish Innovative Firms: The Case of the Madrid Region', *Research Policy* 25(4): 647–63.
- Muller, M. (1998) 'Human Resource and Industrial Relations Practices of UK and US Multinationals in Germany', *International Journal of Human Resource Management* 9(4): 732–49.
- Oliver, C. (1991) 'Strategic Responses to Institutional Processes', *Academy of Management Review* 16(1): 145–79.
- Quintanilla, J. (1998) 'The Configuration of Human Resources Management Policies and Practices in Multinational Subsidiaries: The Case of European Retail Banks in Spain', PhD Thesis, Industrial Relations Research Unit, University of Warwick.
- Quintanilla, J. and Ferner, A. (2003) 'Multinationals and Human Resource Management:

- Between Global Convergence and National Identity', *International Journal of Human Resource Management* 14(3): 363–8.
- Rosenzweig, P. and Nohria, N. (1994) 'Influences on Human Resource Management Practices in Multinational Corporations', *Journal of International Business Studies* 25(2): 229–51.
- Sanchez-Runde, C., Massini, S. and Quintanilla, J. (2003) 'People Management Dualities', in A. M. Pettigrew, R. Whittington, L. Melin, C. Sanchez-Runde, F. A. J. Vann Den Bosch, W. Ruijgrok and T. Numagami (eds) *Innovative Forms of Organizing*, pp. 251–76. London: SAGE.
- Smith, C. and Meiksins, P. (1995) 'System Society and Dominance Effects in Crossnational Organisational Analysis', *Work, Employment and Society* 9(2): 241–67.
- Streeck, W. and Thelen, K. (2005) 'Introduction: Institutional Change in Advanced Political Economies', in W. Streeck and K. Thelen (ed.) *Beyond Continuity: Institutional Change in Advanced Political Economies*, pp. 1–39. Oxford: Oxford University Press.
- Tayeb, M. (1998) 'Transfer of HRM Policies and Practices Across Cultures: An American Company in Scotland', *International Journal of Human Resource Management* 9(2): 332–58.
- United Nations Conference on Trade and Development (UNCTAD) (2003) *World Investment Report 2003*. New York: United Nations.
- Wailes, N., Ramia, G. and Lansbury, R. (2003) 'Interests, Institutions and Industrial Relations', *British Journal of Industrial Relations* 41(4): 617–37.
- Wever, K. (1995) 'Human Resource Management and Organizational Strategies in German- and US-owned Companies', *International Journal of Human Resource Management* 6(3): 606–25.
- Yuen, E. and Kee, H. T. (1993) 'Headquarters, Host-Culture and Organisational Influences on HRM Policies and Practices', *Management International Review* 33(4): 361–83.