

Employment Relations in MNCs: an Australian Story

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This paper reviews the literature on employment relations in MNCs in Australia. It finds that first the central local debate is prominent both in relation to foreign MNCs in Australia and Australian MNCs overseas. Second, there are many factors influencing central local control. These include; country of origin effect, type of product and product market; firm size, company and HR structure, language and cultural proximity and geographical distance. Third, host country effects are prominent in terms of structural and institutional change, many companies and industries appear to have taken advantage of more favourable conditions to reshape their workforces.

Introduction

Multinational Corporations (MNCs) are part of the ongoing process of globalisation where communications, trade, employment and capital flows are increasingly cross border in nature (Dicken, 2007).. MNCs have a long-standing presence in the Australian economy and can be found across all sectors and they are important in terms of their contribution to employment, investment, research and development and trade (Department of Foreign Affairs and Trade, 2002). In this paper we examine the literature on human resource management and employment relations practices of MNCs in Australia. In particular we explore the determinants of central control and subsidiary 'discretion' in HRM and the link to employment relations practices and the changing nature of employment relations in Australia. First, we briefly review the international literature and identify emerging research questions. Second, we examine the major themes emerging from the literature on Australia since the early 1990s. Finally we identify some key questions for further research.

MNCs and Central Local Control

The debate on whether there is a convergence or divergence of behaviours between firms, industries and countries has been an ongoing feature of IR/ HRM research for decades since Kerr et al. (1960) argued that the 'iron hand of technology' is the main driving force behind the convergence of social institutions including industrial relations across different countries. The contemporary globalisation/convergence theory is in the tradition of 'pluralistic industrialism' (Kerr et al. 1960). However, the renewal and persistence of the theory draws today not on technological determinism but on conceptions of the impact of the intensifying of economic, political, social and cultural relations across borders.

Globalisation has provoked some interesting speculation on the part of enthusiasts about a 'globalised economy' in which distinct national economies are subsumed into region-states and companies follow the same set of 'best practices', adopting a convergent model of organisation and that leads to a process of homogenisation in their behaviour and a deterioration of national management models (Ohmae 1990; Bartlett and Ghosal 1989). On the other hand, nationalists point out that for the time being the world economy is still fundamentally characterised by exchanges between relatively distinct national economies, in which many outcomes, such as the competitive performance of firms and sectors, are substantially determined by processes, regulations and institutions occurring at the national level (Hirst and Thompson 1999). Far from being stateless, evidence suggests that MNCs remain primarily rooted to their country-of-origin national business system (Ferner and Quintanilla 1998). Companies are under pressure to maximise the benefits of global co-

ordination, while maintaining responsiveness to differences at local, national or regional level. As a result, MNCs are faced with a 'think global', 'act local' paradox (Dowling, et al 1999). The question is the extent to which their various foreign subsidiaries act and behave as local firms (local adaptation) versus the extent to which their practices resemble those of the parent firm (global integration).

However, why MNCs adopt particular strategies and subsequent HRM and employment relations practices is contested and as a consequence three key perspectives emerge from the literature. First, the 'varieties of capitalism' perspective highlights the way in which even apparently highly globalised firms are 'embedded' in the country in which they originated (e.g. Almond and Ferner, 2006). Given that the organisational structures of firms rooted in different national business systems continue to display major differences (Hall and Soskice, 2001; Whitley 2001), this embeddedness means that MNCs exhibit a 'country of origin' effect in the way that they manage their international workforces (Ferner, 1997). There is considerable evidence of this pressure in the way that MNCs operate. For example, the literature on Japanese MNCs suggested that the way that they internationalised in the 1980s and 1990s was shaped by a desire to recreate some of the practices in their overseas operations that were widely used in Japan, such as some of the practices associated with lean production (e.g. Oliver and Wilkinson, 1988). The literature on US MNCs has also testified to a detectable American influence on the nature of employment practice in the firms' international operations (e.g. Almond et al., 2005). Second, other research has pointed to the emergence of 'multi-centred' or 'heterarchic' firms in which strategic responsibilities are widely disseminated and in which the coordination of 'differentiated networks' across the MNC becomes a key management task. This strand of the literature has also pointed to the accompanying growth of horizontal linkages involving innovative project- and team-based forms of international organising; and to the strengthening of international structures based on regions and business divisions (Bartlett and Ghoshal 1989; Hedlund 1986; Forsgren 2004). These developments have stimulated a wide variety of intermediate structures and modes of organising management functions, including human resources, at international level (Edwards et al. 1996; Lee and Williams, 2007). These evolving and diverse developments have profound implications for how different MNCs manage employment practices within their subsidiaries. Third, a quite different approach in the study of MNCs is to view employment practice in the subsidiaries of MNCs as being determined by the position of each subsidiary within a corporate division of labour. This approach has its roots in the work on the 'new international division of labour' (Frobel et al, 1980) which argued that MNCs were increasingly breaking up their production processes so that functions requiring skilled labour, such as research, design, sales and marketing, were located in developed economies while the labour intensive operations that could be performed by unskilled workers were located in developing countries. More recently, this idea has been developed by those writing about 'global value chains' (Gereffi et al., 2005) and has been taken up by some researchers looking at HR/IR issues in MNCs. For example, Wilkinson et al (2001) argued that the division of responsibilities across countries in Japanese MNCs resulted in quite different practices for those in the home country compared with those in the subsidiaries elsewhere in Asia.

These three approaches to the understanding of MNC practice are relevant to the evaluation of HR practices of MNCs operating in Australia. Taking a multi-centred perspective we can ask are MNCs increasingly seeing their Australian operations as part of a cross-border web of operations serving regional and world markets and are employment practices responding to a corporate logic extending beyond the confines of the Australian economy? If so, what role is there for the Australian operations to play a part in forming this concerted approach to managing the international workforce? Also is the concerted approach truly global in nature

or regional? Moreover, does it involve the monitoring of subsidiaries against performance targets across operations with these comparisons being used as the basis for cross-national organisational benchmarking? The Varieties of Capitalism perspective raises a further set of questions. Are there differences between the HRM practices of MNCs according to the nationality of the parent firms? If so, can these be understood in terms of the distinctiveness of the home country model of employment relations and national business system differences? Finally a locally responsive perspective leads us to additional questions. In particular, can the nature of employment practice in MNCs in Australia be understood to be the consequence of the role and importance of the subsidiaries within the global operations? Relatedly, can variation between MNCs in Australia be explained by the differing roles, for example, between those performing R&D and those carrying out routine, low value added functions?

Many of these questions can be synthetised down into four key research areas first, the locus of control – is it central or local – what levels of discretion do subsidiaries have over decision making? Second, what are the factors influencing levels of control, this could include country of origin effect, international business strategy and global mindset, organizational structures and product standardization. Also how HR operations are structured, organized and supported is crucial. Third, the host country effects, for example what is the impact of the local institutional framework on decision making within the local subsidiary? Fourth, within MNCs are there differences between the employment relations practices that they utilize for expatriates or senior managers and those applied to local employees? Do they use different practices for different groups of employees within the global and local workforces? With these four key research questions, this paper will review the Australian experience in these key areas.

Evidence from Australia

Some of the earliest studies into MNC employment relations practices in Australia focused on the country of origin. For example, case study research by Bamber, et al (1992) and Dedoussis (1995) explored the transferability of Japanese management strategies into Australian subsidiaries. Both studies found only part of the home country's HRM practices were transferred. Bamber et al (1992) found some success in the attempt of Japanese managers in keeping their Japanese identity while trying to accommodate to the Australian context however; they found communication problems both between the company's subsidiaries and between the subsidiaries and the Japanese head office. In particular they found language and cultural barriers and poor corporate structure and culture in the company that they examined. On the other hand Dedoussis's (1995) study of nine manufacturing firms suggested that the limited transfer of Japanese management practices was mainly affected by economic rather than socio cultural constraints. Certain practices such as internal training and job rotation were used for blue collar workers because of economic advantages. Employment practices for local white collar employees were largely decentralized and only Japanese expatriates enjoyed benefits such as lifetime employment. Purcell, et al (1999) surveyed 69 Japanese manufacturing, finance, tourism and trading firms in Australia and examined their employment relations practices. They also found that few firms replicated exactly the management systems used by their parent companies in Japan however; they adopted many of their organizational practices. In particular '*Japanese management style and use of Japanese HRM practices have been adopted by subsidiaries in Australia as part of the transfer of the parent's ownership advantages and as a control and monitoring device*'. The researchers found that the intensity of transfer was influenced by experience – the longer the firm had been in Australia the greater the influence, and ownership – firms with majority Japanese ownership were more likely to adopt Japanese management styles than those with minority

ownership. Finally sector also emerged as significant, for example manufacturing had a high ratio of local employees and hence a more hybrid model of employee relations, financial services and trading companies had the largest group of expatriates and largest majority ownership hence the strongest in Japanese managerial transfer.

Festing (1997) explored international HRM strategies in MNCs by carrying out case studies in the headquarters and subsidiaries of 10 German MNCs using transaction cost analysis. She found in 9 out of the 10 companies close links of international HRM strategy to corporate strategy and a strong coordination of their worldwide activities demonstrating a strong country of origin effect. Only two organisations, automobiles and banking, adopted a locally orientated strategy. She also found concerns amongst her largely German interviewees that reducing the number of expatriates to save costs would increase the danger of communication and coordination problems.

The publication of the Australian Workplace Industrial Relations Survey (AWIRS) in 1990 and 1995 led to a number of studies capturing the Australian experience. Rodwell and Teo (1999) examined the 1990 data and compared Australian companies with companies owned by Japanese, US and UK firms. They found limited differences between the local and overseas MNCs and a slight country of origin effect. Walsh (2001) undertook an analysis based on the 1995 AWIRS data. She compared US, UK, Japanese and Australian companies and found some substantial differences among MNCs by nationality. Overall she found that foreign owned MNCs in particular US and British companies were more likely to more sophisticated HRM policies and practices than Australian companies and that the strongly regulated industrial relations environment (at that time) had not deterred innovative HRM practice. McGraw and Harley (2003) used the 1990 and 1995 AWIRS data to compare the changes in HR/IR practice in these years in Australian and overseas owned workplaces and also to identify convergence or divergence in these years. They concluded that in Australia *'there is a pronounced divergence in the HR practices of overseas workplaces when compared with locals.'* In other words the overseas MNCs were utilizing a more sophisticated range of HR policies and practices at a faster rate than indigenous companies. However, they also suggest that overall all companies are moving in the same direction and that the faster uptake of overseas MNCs might be due to a number of reasons including their exposure to *'the full force of globalization and the intensification of competition associated with it'*.

More recent evidence has emerged from studies that have investigated cross country data drawn from the EURO-CRANET (study on comparative HRM) studies 1999- 2000. Papalexandris and Panayotopoulou (2004) explored the interaction of societal culture and human resource management practices in 19 countries including Australia. They focused on recruitment and selection, performance and reward management, training development and career planning and internal communications including the existence of trade unions and found that certain cultural dimensions are correlated to specific HRM practices. The strongest relationships between culture and HR practice include communication and the weakest relationships involve reward management. Gooderham, et al (2006) and Fenton-O'Creevy, et al (2007) also use the 1999 EURO-CRANET data to explore how national institutional settings impact on the managerial practice of the subsidiaries of foreign owned MNCs. Gooderham et al (2006) compared the application of three typical HR practices (described as calculative HR practices) these are, individual performance appraisal, individual rewards systems, and monitoring of training in US subsidiaries in four European settings and in Australia. The findings indicate high application of such practices in Australian domestic firms and even higher application by US subsidiaries. As the authors suggest this could indicate that the legislative changes in the 1990s *'have created a very favourable setting for the application of calculative HRM practices'*. However, they also found that US MNCs

'consistently diverge from their host country counterparts including the UK and Australia', again giving support to the country of origin effect. Fenton-O'Creevy et al (2007) also explored the determinants of subsidiary autonomy in establishing HRM practices in US MNCs in Europe and Australia. They focus on two aspects – the strategic role of the subsidiary and the host country institutional framework. The findings demonstrate that US MNCs exercise a greater degree of control on their subsidiaries in Coordinated Market Economies than they do in those in Liberal Market Economies and greater control where union density is low. The findings also show that US MNCs impose less centralized control on subsidiaries that service domestic markets as opposed to international markets allowing some local adaptability.

McGraw (2002) used the same dataset and compared the HR function in local and international MNCs operating in Australia. He found a mixed pattern of similarity and difference between these organizations. McGraw (2002:223) argued that HR in overseas companies was more likely to be a strategic partner to line management. However, he also found that contrary to the evidence from AWIRS, Australian companies were just as likely to have formal HR policies and strategies as their overseas counterparts. This might be explained by the larger size of companies responding to the CRANET survey. McGraw (2002:223) also found that the locus of decision making between domestic and foreign firms varied slightly *with overseas organizations more likely to take decisions at site level and less likely to take decisions at divisional level*. Foreign firms were more likely to make decisions at international level on *pay and benefits, workforce expansion and reduction issues, and management development*. Decisions concerning industrial relations and recruitment and selection were least likely to be made at international level.

Another comparative survey attempting to benchmark 'best practice' international HRM practices across ten core countries and regions including Australia was carried out in 1999. This study empirically tested whether HRM practices were context free, context specific or context dependent (Gerginer, Frayne and Milliman 2002). The study led to comparisons on the status of HRM departments across countries, the linkage of HRM to strategy and the contribution of HRM to organizational capabilities (Bowen, Galang et al. 2002). Not surprisingly the study found that context mattered and that Australian HRM practices tended to be close to the USA and Canada. The researchers also found *some significant global and converging trends in IHRM across the cultures industries and organizations* (Von Glinow et al. 2002: 137.)

Other comparative surveys include Harzing and Noorderhaven's (2006) international survey focusing on geographical distance and the role and management of subsidiaries in Australia and New Zealand. The results indicated that Australian and New Zealand subsidiaries were afforded higher levels of autonomy than subsidiaries in other countries. Australian and NZ companies were also more likely to be Local Innovators and less likely to be Global Innovators. They also benefited from 'language proximity' with US and UK firms which offset the geographical distance to a great extent as informal communication emerged as a key issue in this study. Johnstone and Menguc (2007) focused on Australian subsidiaries of mainly US, UK, European and Japanese MNCs to investigate the relationship between subsidiary size and autonomy. They found that as a subsidiary increased in size it also increased in autonomy however at a certain point autonomy decreases as increased size leads to increased complexity and the necessity for greater inputs of managerial expertise and increased integration with the global organisation.

One of the criticisms of large scale surveys is that they are often based on self reported single respondents leaving the studies at risk of common method variance. Also the complexity of

context is often not taken into account. Evidence emerging from qualitative and case study research can on the other hand reveal a greater richness of data and explore the complexity of decision making in multicentred and multilayered international organizations. McGraw (2004) interviewed 15 senior HR managers from the Australian branches of overseas MNCs using semi structured interviews to explore issues in greater detail. McGraw (2004) was keen to understand the relationship between central control and local autonomy in HR practices. He found that *while the power position of the subsidiary is critical to the amount of control wielded from head office it is clearly mediated by personal relationships, negotiation ability, the national culture of the subsidiary and perceived competence of HR elsewhere in the organization*. Several of his HR directors claimed to campaign vigorously against practices that they felt did not suit their needs and believed that Australian subsidiaries tended to have a voice 'out of proportion to their size'. Overall a picture emerged of Head Offices that often did not understand the Australian context and structures in place that reflected this lack of awareness but at the same time an extremely fast pace of change mitigated some of these constraints.

There are also a range of studies that focus on the experience of Australian MNCs overseas. These include studies in the international business literature, for example Zalan and Lewis's (2006) study into administrative heritage. The international HRM literature also contains a number of studies exploring the experience and challenges of managing expatriates overseas (Fenwick, De Cieri and Welch 1999; Tharenou and Harvey 2006) and particular HRM functions and sectors overseas (Zheng and Hyland 2007; McGrath Champ and Carter 2001). De Cieri and Dowling (1997) identified the centralization decentralization HRM challenges for Australian MNCs operating in the EU and Kim and Gray (2005) also examined Australian MNCs overseas arguing that IHRM strategies are shaped to varying degrees by strategic factors. They found the most important explanatory factors being subsidiary role and national cultural distance between home and host countries leading to a local HRM strategy to reflect the differences between home and host country differences in regulatory and cultural environments.

In the Australian employment relations literature, sectoral or industry studies are prominent. In the early nineties Kitay and Lansbury (1997) examined employment relations changes in a range of industries as part of the MIT international study. Overall they found changes in work organisation particularly in relation to job demarcation, multiskilling and teamwork; and changes in skill formation and development although this varied widely from industry to industry. They also found changes in staffing arrangements and a decline in employment security and a significant growth in temporary, part time and casual work.

Other sectoral studies include a focus on the hospitality industry. Rodwell and Teo (2000) explored HRM philosophy, policy and practice in US, Asian and Australian firms operating in the Australian hospitality industry. They found a relatively basic approach to HRM in the Australian firms, while the US companies were more operationally sophisticated and the Asian firms emphasized their HRM philosophies as a key part of their practice. On the other hand more recent studies by Davidson, Guildy and Timo (2006) and Timo and Davidson (2005) on the ER practices of MNCs in the luxury hotel sector found little difference in the employment relations practices of domestic and international MNCs. Instead they found a *labour market that is gendered, numerically flexible and low paid* but with high levels of education and training and suggest that the employers *have reshaped employment relations practices that perpetuates a competitive strategy based on lower wages, an increasingly educated labour force and the delivery of standard quality*. These findings suggest that the relationship between international and domestic firms is complex and influenced by local

product markets and labour supply. Nankervis and Yaw (1999) comparing hotels operating in Australia and Singapore had similar findings.

Remaining within the employment relations paradigm Lansbury, Wright and Baird (2006) explored decentralized bargaining in the automotive assembly industry in Australia focusing on Ford, GM –Holden, Toyota, Mitsubishi and Mitsubishi- Adecco. They found convergence of practices between the companies had taken place in the use of lean production systems, skill formation and enterprise governance. However, they found divergence in remuneration and staffing practices. The authors suggest that greater divergence was to be expected with the development of enterprise bargaining however national level institutional factors have limited this divergence. Unlike the hospitality industry the automotive industry is highly unionized and the authors conclude *‘the residue of centralisation, the strength of trade unions in the sector and even bargaining coordination between employers, have resulted in the maintenance of continuity in relation to union recognition and support for trade union membership.*

Other industry studies however, suggest some quite different outcomes (Bray and Waring 2006). There are several studies of the mining sector where both Australian based and overseas based MNCs have engaged in an ongoing campaign to de unionise workplaces and to offer employees individual non union contracts. In some cases MNCs have been able to use Greenfield sites to bypass unions and collective agreements. Waring (2001) outlines the IR policy of US based Peabody Coal in the development of its Bengalla mining site. In other cases the confluence of weak demand conditions and new IR instruments allowed employers to significantly alter employment conditions of mining workers (Waring 2001). The two largest mining companies, BHP Billiton and Rio Tinto, have both attempted to de unionise mining operations and shift workers to individual agreements in the iron ore sector (Peetz, 2005), some return to union recognition and collective bargaining in the context of labour shortages.

Lambert et al (2005) examined the experience of the Swedish company Electrolux and the restructuring of the refrigeration plant in Orange New South Wales leading to downsizing, outsourcing and work intensification. The authors argue that the company was able to use the provisions of the Workplace Relations Act to blunt the union response and change employment conditions and that *trade unions appear powerless, marginalized isolated and relatively ineffectual in the face of these changes.* According to Gillan and Lambert (2006, 147) in the case of Electrolux “it is the integration of Australian production facilities into a global production and marketing network with the consequential corporate strategic interests and priorities of local managers that have underlined a significant weakening in the bargaining capacity of unions and workers...”. In the case of Electrolux the developments in IR laws in Australia enabled the company to introduce extensive changes to work practices in the context of integrating its Australian operations into its global supply chain. Similarly Morris (2002) explored the origins and causes of the Australian Stevedoring dispute in 1998 focusing on foreign owned MNCs and found a range of factors including the deunionisation of the stevedoring industry by government, the desire of employers to enhance profits, increased casualisation of the workforce and a decline of the tripartite reform process involving government officials, trade unions and employers.

Bray and Lansbury (2000) studied the MNC Asea Brown Boveri group and compared three of their sites in Finland, Switzerland and Australia. They found that despite employment relations being generally regarded as a local issue, there was increasing evidence of some level of convergence. They suggest both internal and external forces that contribute to this. Internal factors include management strategy and standardization of product and design,

external factors include product market and changes in national labour laws and institutions. In this study there was a common trend within all three countries towards greater deregulation and decentralization of employment relations and bargaining.

Finally, there are sectors of Australian industry that have experienced enormous and radical restructuring due directly to government policy. For example the privatization of major government owned companies (Qantas, Telstra) has created new Australian MNCs (Small 2002; Barton 2002). The privatization of other government owned industries such as electricity and gas has led to new forms of MNC ownership and new forms of employment relations (Fairbrother and MacDonald 2000).

Summary

In summary the literature contains some interesting insight into the four research questions identified earlier. First, the central local debate is prominent in many of the studies both in relation to foreign MNCs in Australia and Australian MNCs overseas. Second, the evidence suggests that there are many factors influencing central local control. These include; country of origin effect particularly in relation to US and Japanese companies in Australia, however the impact of Australian companies overseas is not so clearly defined; type of product and product market; firm size, company and HR structure, language and cultural proximity and geographical distance. Third, host country effects are prominent in terms of structural and institutional change, Australia's – 10 years of changing industrial relations legislation has possibly led to greater turbulence than in many other countries. Many companies and industries appear to have taken advantage of more favourable conditions to reshape their workforces. Finally, while there is a great deal of literature on expatriates there is little comparison of employment relations practices between expatriates and local employees.

However, while the literature on foreign owned MNCs and employment relations in Australia is extensive and the literature on Australian MNCs and their employment relations practices is emerging it is clear that there are many different approaches. First, there are different paradigms within the industrial relations, human resource management, international business and international management disciplines with different theories and different analytical frameworks applied. Second, there are different methods used from surveys to case studies with limited consistency across methods. Third, although there is some discussion of administrative heritage there is no clear exposition of the Australian business system and how this impacts on employment relations and human resource management. However, it is certainly implied in some of the studies suggesting that Australian MNCs are late developers in the globalization process and that their business practices reflect their history and geographical distance and historical isolation. In conclusion the employment relations practices of MNCs in Australia and Australian MNCs overseas is an increasingly important area of research that needs to be investigated using a more systematic methodology.

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