Multinational Enterprises, Global Value Chains and Local Human Resource Management Decision-Making Discretion

Anthony McDonnell, Tim Bartram*, Pauline Stanton** and John Burgess***
Centre for Institutional and Organisational Studies, University of Newcastle, La Trobe University*; Victoria University**; University of Newcastle***

Abstract

This paper seeks to discuss two primary research questions. First, what is Australia’s place in the global value chain? In answering this question, we will be able to determine whether Australia is moving towards a knowledge or service based economy, or whether it remains a destination for investments in natural resources and basic manufacturing activities? Our second research question asks, what impact does the Australian operations’ position in the global value chain have on local subsidiary decision-making autonomy over key human resources (HR) and employment relations (ER) policies and practices? In this paper we set out to establish whether the global value chain concept is useful in explaining subsidiary management autonomy. In doing this we propose a number of hypotheses. Focusing on human resource management (HRM) and the discretion afforded to subsidiary management in multinational enterprises (MNEs) is also significant due to the increasing consensus in the literature on the importance of HR in deriving sustainable competitive advantage (Amit & Belcourt 1999; Hatch & Dyer 2004). Being able to discern the extent to which management in MNEs in Australia have authority over HR policies and practices or whether they merely execute corporate decisions and policies that are decided elsewhere is a useful contribution. Specifically, we will further existing research on the extent to which MNEs are pursuing common, global agendas or whether there are a number of factors impinging on this, and most notably here, the subsidiary position in the corporate value chain.

Introduction

Despite considerable international literature on human resource management (HRM) and employment relations (ER) in multinational enterprises (MNEs) particularly in terms of analysing the impact of different factors (e.g. country of origin, sector, firm size) on inter-organisation variation, limited attention has been placed on the impact on HRM and ER given the subsidiary’s position in the global value chain. The ‘global value chain’ (e.g. Gereffi, Humphrey & Sturgeon 2005), builds on work from the ‘new international division of labour’ (Frobel, Heinrichs & Krege 1980), argues that MNEs are increasingly breaking up production processes to allow high value-added activities (e.g., research and development (R&D)) be conducted in developed economies (that have the critical skill mass, infrastructure and comparative advantage) and more rudimentary, labour intensive and low value-added activities performed in low cost developing economies. It is suggested that the HRM and ER practices deployed by MNEs will vary according to the division of responsibilities across countries (Wilkinson, Gamble, Humphrey, Morris & Anthony 2001). Operations with strategic roles in the organisation’s value chain, for example, generating R&D expertise within the worldwide company (Birkinshaw & Hood 1998), may have greater autonomy over
their management practices and will be more likely to be a source of new HRM innovations that are implemented elsewhere in the company. If this is the case, then it will arguably have major implications for labour market policy and human capital development strategies in the countries in which these organisations operate.

Of note is that the Asia-Pacific region, particularly Australia and New Zealand, is quite under-represented in the extant literature on MNEs. A recent in-depth review of empirical papers published in the top 53 academic journals over the past two decades returned 61 articles relating to HRM issues in Australian-owned MNEs or foreign MNEs operating in Australia (McDonnell, Stanton & Burgess 2010). Utilising a broad definition of HRM and incorporating individual (e.g., expatriate), subsidiary and organisational perspectives, what emerged was that although a fertile context for MNE research, Australian studies are sparse or at least have struggled in making their way into top academic publication outlets. The majority of these studies were individually focused on expatriate issues with a dearth of organisational level research. Further, a key weakness in the MNE literature has been the lack of representative data due in no small part to difficulties in accurately deriving the total population of such firms (Edwards, Tregaskis, Edwards, Ferner & Marginson 2008; McDonnell, Lavelle, Gunnigle & Collings 2007).

This paper is organised as follows. First, we review the literature on the MNEs operating in Australia focusing on their economic impact and the unique Australian context. Second, we review the literature on the positioning of Australian subsidiaries in terms of ER and HR policies. Third, we engage with the relevant literature and propose a number of hypotheses relating to the previously stated research questions. Finally, we consider the global value chain framework and its application to the development of ER and HR policies. The article is conceptual and encompasses a literature analysis. We use the terms ER and HR interchangeably, although in the discussion of ER policies we are largely referring to union recognition and union avoidance strategies.

Making the Case for Including Australia in Studies on MNEs

The lack of empirical research is somewhat surprising considering that many sectors of the Australian economy (e.g., motor vehicles and white goods) are almost entirely dominated by MNEs. Indeed, Australia’s vast natural resources are predominantly owned and controlled by foreign enterprises. The recent KOF Index of Globalisation (2010), based on 2007 data, ranked Australia in 19th position in their overall Globalization Index (measure that combines economic, political and social globalization) ahead of the UK, US and Japan. The 2007-08 period saw inward FDI at a five decade high with a value of nearly 3.7 per cent of GDP. Indeed, Australia was recently positioned among the second tier of developed countries in terms of the distribution of FDI flows among economies in 2007 (UNCTAD 2008). Both FDI inflows and outflows were categorised in the US$10 to 49 billion category alongside Belgium, Ireland, Japan (for inflows only), Sweden and Denmark. There has also been significant growth in Australian FDI with outward flows (US$24,209 million) exceeding inflows (US$22,266) in 2007 (UNCTAD 2008), pointing to increasing numbers of Australian firms investing overseas and/or existing Australian owned MNEs increasing their foreign presence. The US is the single most important source of inward FDI, accounting for almost one quarter of all inflows into Australia, in addition to being the most important location for Australian FDI accounting for almost 43 per cent of all outward investment (Foreign Investment Review Board 2008). The UK is another substantial source of FDI, whilst, Japan,
Hong Kong and Singapore represent the major Asian investors (Australian Bureau of Statistics 2009). In more recent times, the Asian economies have started emerging as increasingly important players for Australia (e.g. Korea, China, and Malaysia) (Australian Bureau of Statistics 2009). However, the US and UK still account for over half of Australia’s FDI inflows and outflows (Anderson 2000; Australian Bureau of Statistics 2010). Our review of the World Investment Report’s Top 100 listed non-financial MNEs (by foreign assets) found that 67 have operations in Australia that employ in excess of 100 persons (UNCTAD 2008). Thus, the majority of the world’s largest MNEs have significant operations in Australia.

Australia’s attractiveness for MNE investment, particularly US and UK organisations, is in no small part explained by its political stability, relatively close proximity to the increasing important Asian economies and its quite favourable business environment (Johnston & Menguc 2007). Australia also represents a small, late internationalising economy which until approximately three decades ago had the highest protectionist measures against manufacturing in the OECD with the exception of New Zealand (Anderson 2005). These economies, and in particular MNEs emanating from and operating in such countries, have received considerably less attention than the larger mature economies of the US, UK and Japan. Indeed, existing research is predominantly concentrated on MNEs from and in the largest, most mature, and institutionally weak (in employment legislative terms) countries (e.g. UK and US). Boyacigiller and Adler (1991) have previously noted that there is uncertainty surrounding whether management typologies predominately based on US MNEs apply to smaller countries. Countries with comparatively small MNEs and which are new to internationalisation (e.g. Australia) may have quite a differentiated pattern of behaviour and organisation, such as simpler organisational structures (De Cieri & Dowling 1997).

Furthermore, one of the biggest international management challenges facing MNEs is the institutional change and socio-political challenges (e.g. changes in bargaining arrangements and trade union rights and recognition procedures). The host context is likely to impact on location decisions by headquarters management and also the types of activities conducted in particular countries. Consequently, this paper with its emphasis on a key economy in the Asia-Pacific region will help redress the imbalance in the MNE literature. We now turn to the literature and establish hypotheses for future empirical testing.

**HRM practices of MNEs in Australia**

Previous research on HRM practices has largely relied on case study evidence, with a few studies using survey data such as AWIRS and CRANET, neither of which were exclusively focused on MNEs. Issues investigated included the role of host countries (and systems of capitalism), sectors and size of the operations. Walsh (2001) noted the greater investment in HR and more sophisticated HRM systems in foreign MNEs than Australian establishments. Furthermore, she found US and UK MNEs had the most developed HR policies and practices leading her to suggest that the strongly regulated Australian industrial relations system had not deterred innovative HR practices. McGraw and Harley (2003) compared 1990 and 1995 AWIRS data and found, ‘a pronounced divergence in the HR practices of overseas workplaces when compared with locals’ (p. 18). In other words, foreign MNEs were using a more advanced suite of HR policies and practices compared to domestic firms. However, the data suggested that all companies were moving in the one direction in terms of having more sophisticated HR policies and practices although foreign MNEs were moving faster. They
suggest this is related to globalisation and the intensification of competition. Gooderham et al. (2006) using CRANET data found greater use of calculative HR practices (individual performance appraisal, individual rewards systems and monitoring of training) in the Australian subsidiaries of US MNEs than in their UK, Irish, Danish/Norwegian and German subsidiaries. This suggests that the institutional framework of Australia is particularly receptive to these US styled practices.

Purcell et al. (1999) found that the Australian subsidiaries of Japanese MNEs largely adopted practices stemming from the Japanese parent firm. The rationale behind this was to benefit from the parent company’s ownership advantages, as well as it being a key control and coordination device. However, certain Japanese practices (e.g. incentive system) were not transferred due to significant differences between the cultural and institutional context of Australia and Japan. Hutchings (1996) explored the workplace relations of Australian and Japanese owned MNEs in Singapore, Malaysia and Indonesia finding that Japanese MNEs were more likely to conform to local conditions with Australian firms more likely to transfer practices from Australia.

McGraw (2004) through the use of 15 semi-structured interviews with senior HR practitioners in foreign MNEs in Australia found that the power position of the subsidiary was vital in determining the level of autonomy provided by headquarters. He suggests that industry and strategy are less useful in understanding the HR systems adopted in subsidiaries of MNEs. Participants also believed that they had a greater voice, than their size would normally allow, due to campaigning vigorously against particular headquartered led practices.

Johnston and Menguc (2007), utilising survey evidence, found that as the subsidiary increased in size there was increased subsidiary management autonomy. However, autonomy actually decreases when the size of the subsidiary has moved beyond a threshold to where considerable complexity exists. Fenton-O’Creevy et al. (2008) also point to the importance of the strategic role of the subsidiary and the host country institutional framework. Specifically, they demonstrated, using CRANET data, that US MNEs exercised greater central control on subsidiaries in Coordinated Market Economies than Liberal Market Economies (e.g. Australia) and also where the subsidiaries serviced global markets.

With respect to ER practices, and specifically policies towards unions there has been a number of case studies researched. Previous research has highlighted the union avoidance strategies and campaigns of selected MNEs, especially in the mining sector (Waring 2001; Peetz 2006). However, sector and host country status of the MNE are not factors that determine the propensity to engage in anti union strategies. Research linked to the fast food sector (Allen et al. 2006) and the manufacturing sector (Lambert et al. 2005) indicated similar aggressive anti union strategies in those sectors and from MNEs sourced outside of the USA.

In a useful international literature review piece, Collings (2008) suggests that research on IR/ER issues in MNEs has been left behind when compared to the HR agenda of MNEs. MNEs possess great potential in acting as a source of innovation in the diffusion of new policies and practices, while equally they may disrupt the status quo of the host context by attempting to remain rooted in their home national business system. For instance, the strong influence of US MNEs has been noted in shaping public policy including IR/ER in Ireland (cf. Collings et al. 2008).
The Australian IR system has undergone substantial change over the past two decades. The significant regulatory changes in the IR system (Sappey et al. 2006) demonstrate the dynamic nature of Australia as a host country for MNEs and provide an interesting context in which to investigate how MNEs respond to changes in legislative environments. While MNEs are often embedded in their home business systems shaped by societal institutions they will also have ties to the countries in which they operate (Almond et al. 2005). Host business systems will vary in terms of their ‘openness’ which will affect how amenable they are to external managerial styles (Whitley 2001). With the recent changes in the Australian IR system, there is arguably greater scope for MNEs to introduce innovative organisational practices. Thus, research exploring the extent to which MNEs in Australia organise in the context of the institutional arrangements they face and/or the part they play in constructing the Australian social and business environment would be welcome.

Global Value Chains and Subsidiary Management Discretion: Hypotheses Development

There is a considerable body of research that has investigated how MNEs control and manage their employees, why different approaches are taken in different societal contexts, and the importance of institutional variation between home and host environments (Almond & Ferner 2006; Morgan and Kristensen 2006). Wilkinson et al. (2001) surmised that a key issue in this literature is the difficulty in finding subsidiary operations that possess the same characteristics and therefore make comparison possible. Similarly, Dedoussis (1995) suggested that the foreign subsidiaries of Japanese MNEs could not be judiciously compared to the parent company because they were essentially peripheral operations. The suggestion being that the role particular operations play is a key factor in the practices used and in the way headquarters control is exercised. This view has resonance with the under-utilised perspective in global value chain research (Kaplinksy 2001).

Sturgeon (2001) notes that the value chain refers to the chain of value-added activities undertaken to arrive and support the end state of related products and services. With globalisation and the resultant increase in international trade and investment the global value chain has emerged as an important concept. This focuses on how activities across both countries and other agents (e.g. customers, suppliers, consultants) are sequenced and configured (Gereffi et al. 2005). The global value chain, ‘encompasses the full range of economic activities that are required to bring a good or service from conception through the different stages of production, delivery to final consumers, and final disposal after use’ (Gereffi 2005, p. 9). Consequently, it establishes what MNE operations exactly do within given countries. For instance, different country operations may be an R&D hub for the worldwide company, back-office support, manufacturing and/or a combination of these. Subsidiaries may conduct one activity or the total value chain of activities (Birkinshaw & Hood 1998). The Economist (2007, p. 11) suggested, IBM as an example of an integrated MNE which highlights how the global value chains operations by maintaining that, ‘increasingly, success for a multinational will depend on correctly spotting which places best suit which of the firm’s activities’. This view challenges the traditional view that the MNE keeps their key functions in the home country with sales and manufacturing operations (low cost roles typically) established in foreign operations. This early view indicated the corporate headquarters was the sole source of competitive advantage. However, in more recent times, this idea has changed with subsidiaries increasingly becoming strategically important within the overall organisation through the provision of R&D expertise or being responsible for
particular global product/service mandates (Birkinshaw & Hood 1998; Paterson & Brock 2002). With much debate surrounding the benefits and costs of MNE investment across the world, one argument made is that for host countries to benefit from FDI, the level of autonomy provided to the subsidiaries so that they can develop new products and processes is critical (Edwards, Ahmad & Moss 2002). The role MNEs play in Australia is unknown, although with the vast natural resources within the country and its poor ranking in the global innovation index (OECD 2004), it is plausible to suggest that MNEs will primarily be engaged in lower value adding activities in Australia. However, there is little or no empirical evidence on the position of Australian subsidiaries in the overall value chain of MNEs. Thus, in addressing our first research questions we hypothesize that:

**H1:** MNEs in Australia predominantly perform low value-added roles within the worldwide organisation.

The role that the MNE’s operations play within the worldwide company is likely to have a significant impact on HR practices employed and the extent of decision-making authority local subsidiary management possesses over these. For instance, operations that act as a key source of innovation, i.e. possess a value-added role, are likely to have greater autonomy than operations which do little more than carry out basic-assembly and/or back-office roles. Edwards and Kuruvilla (2005) note that the global-local debate literature assumes that all MNEs will benefit from standardised policies and if they do not adopt this approach, it is due to the host context (e.g. local cultural or institutional constraints). However, there are other likely influences, particularly subsidiary position in the international division of labour (Edwards & Kuruvilla 2005).

It is this international division of labour that characterizes some, though not all, MNCs, which leads us to doubt whether the global – local question is always a sensible one to ask. MNCs which carry out quite different aspects of their product or service provision process across their various sites will have little incentive to develop standardized, global policies (Edwards & Kuruvilla 2005, pp. 15).

Edwards and Kuruvilla (2005) noted that while the corporate headquarters can implement global policy, local management may have power to go against such policy. This is based on the idea that some operations perform distinct functions that are not easily imitated and transferable (e.g. specialist knowledge) and consequently hold considerable power. In essence, they are strategically important operations. Wilkinson *et al.* (2001) provides some level of empirical support regarding this suggestion, in a study investigating the employee experience in Japanese parent country operations and their Malaysian subsidiaries, concluding that differences across issues such as access to training and development was due to the operations position in the corporate division of labour. Thus, the host context was not the primary constraint but the role of the Malaysian operations within the overall MNE. We propose that:

**H2:** The higher the Australian operations are in the global value chain, the greater the decision-making autonomy they will possess.

As noted above, a central theme to the global value chain concept is that final products and services may result from coordinating different operations that carry out specific activities in producing an overall product or service. Foreign subsidiaries can play substantially different roles, with some holding a key strategic position and others playing more contracted roles (Birkinshaw 1997; Gupta & Govindarajan 1991, 1994). In addition, firms which are not
directly owned by the ultimate controlling company may be part of this value chain. Furthermore, subsidiaries may play one or more roles in the overall value chain and, equally they may be a separate entity where they are not dependent or linked to other operations. This means that the integration and coordination of production and/or service provision is intrinsically linked to the global value chain and is likely to be a key impact on the autonomy afforded to host country management. Rosenzweig and Nohria (2004) have noted that there is less imperative to transfer practices where integration between different country operations does not exist or is limited. Similarly, others (cf. Noorderhaven & Harzing 2009) have suggested where a MNEs’ operations are integrated the scope to develop common, standardized global policies and transfer practices across subsidiaries increases. Moreover, Kostova and Roth (2002) argue that if practice varies across foreign subsidiaries it is the result of two factors, namely, the institutional framework of the host country or the relational environment within the worldwide organisation. Here, relational context refers to the degree of dependence, trust and identify in existence between head office and subsidiaries. If the subsidiary is not particularly linked to the wider MNE then it is likely to have a weak political position in terms of autonomy on decision-making from headquarters (Morgan & Kristensen 2006). Empirical work by Edwards et al. (2002), found that the more integrated the subsidiaries were in the global organisation, the less their autonomy. We propose that:

H3: Highly integrated MNEs will have less decision-making autonomy than MNEs with low global integration.

The corporate strategy of the MNE is also likely to be a strong influence on the level of autonomy provided to subsidiaries. One of the most well-known typologies in this area is the work by Bartlett and Ghoshal (1998). They suggest, for example, that where the corporate strategy is one of competing through a standardised product sold internationally, benefiting from economies of scale, that a centralised approach will be adopted. Consequently, subsidiary autonomy will be low. On the other hand, where the worldwide company adopts a localisation strategy focused on customised products to national markets, a decentralised management approach with higher levels of subsidiary autonomy is likely. In line with the idea of global value chains, the corporate strategy is also likely to vary between countries. For instance, the MNE may have a localisation strategy focused on customising products to national markets in one country and a replication strategy aimed at selling products/services developed in the home market but sold internationally with minimal customisation. Our fourth hypothesis is:

H4: Where the worldwide company competes through a globalised strategy, the subsidiary will have less autonomy than those which compete through a localised strategy.

Finally, the home institutional identity (i.e. country of origin) is also likely to be a factor in how the global value chain within the MNE will operate (Whitley 1996; 2001). Whitley’s work suggests that the way employees are managed across the MNE will be strongly influenced by the home institutional environment of the firm. As the MNE establishes operations, these will largely reflect the practices, control and coordination routines of the home country (Lane 2001; Morgan, Whitely, Sharpe & Kelly 2003). Research on the transfer of HR practices across countries has typically found differences across different nationalities of MNEs, especially in relation to US and Japanese owned firms (cf. Bae, Chen & Lawler 1998; Ferner, Almond, Clark, Colling, Edwards, Holden & Muller 2004).

H5: The country of origin of the MNE will be a significant factor in explaining variation in subsidiary discretion.
**Conclusions**

The evidence suggests that many potential factors impinge on the HR and ER practices of MNE subsidiaries in Australia. These include host country, sector, size and position in the global value chain. MNEs are dominant in the Australian economy so it would seem that MNEs have potential to be important players in the evolution and development of HR and ER practices. Additionally they have the potential to introduce innovative practices, enhance employee well being or erode employment norms.

In terms of the global value chain research MNEs may incorporate a wide array of structures and different approaches to organising management functions (Lee & Williams 2007) which holds implications for ER practice within the different subsidiaries of an MNE. For instance, subsidiaries that play a value-added role may be more likely to be a source of new practices that the MNE may implement elsewhere in the economy. This is a relatively under-researched but fruitful area in the extant literature. There is a total lacuna, which should be tackled, in the Australian context on the roles subsidiaries play, how the roles differ and the impact of their roles on HRM issues, such as control. The next stage of the research is to test the hypotheses we have set out in this paper. To this end a purpose built data base of MNEs in Australia is being constructed and this should allow for the testing of many research hypotheses (including those linked to the global value chain) regarding a key component of the Australian economy.

In this article we have linked emerging global value chain research with the development of HR and ER policies of Australian subsidiaries. We contend that the position of the subsidiary in the global value chain is another variable to consider when attempting to understand how MNEs develop and apply HR and ER policies and practices. We suggested some tentative testable hypotheses that await an appropriate data set for testing. The discussion has not included how Australian based MNEs develop and operate HR and ER programs in their overseas subsidiaries. This is also an under-researched area that could also benefit from some consideration of the location of these subsidiaries in the global value chain of the MNE.
References


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1 This paper has been peer reviewed by two anonymous referees.