HRM and IR in Multinational Corporations: Uneasy Bedfellows?

Abstract

As multinational corporations operate in multiple countries, headquarters have to apprehend differences in local settings when seeking for the means of coordination and control of its subsidiaries. The local system of industrial relations sets the frame for what kind of human resource management a multinational corporation can implement. But another question is if the still stronger multinationals can change the existing systems of industrial relations, directly or indirectly.

The paper analyses five Danish enterprises over a 10 years period. This longitudinal study shows that none of the multinationals directly try to interfere in local industrial relations. However, by excising their management prerogative in a way different than embedded in the Northern European tradition of industrial relations they do influence the cooperation between employers and employees. In the long run this might jeopardize a high-trust and stakeholder-oriented system of industrial relations.

Keywords: human resource management, industrial relations, multinational corporations, hard vs. soft, stakeholder vs. shareholder

INTRODUCTION

Multinational corporations (MNCs) have been seen as means whereby national economies are integrated into a global economy, with a small number of very large companies accounting for a disproportionately large number of the people in employment (Torrington, 1994). The growing globalization is a big challenge for MNCs especially from a managerial perspective. In the past, managing MNCs meant transplanting home operations to foreign locations, relying on expatriate staff to run the overseas operation. The MNCs today are considered to be a 'differentiated network', where knowledge is created in various parts of the MNCs and transferred to the other interrelated units (Hedlund, 1986; Bartlett and Ghoshal, 1989). MNCs are exposed to new knowledge, local ideas and opportunities, and hence more responsive to local needs. This differential exposure has been put forward as one of the basic competitive advantages of the multinational firm, since "it increases the breadth and variety of the MNCs' network resources" (Andersson et al, 2002: 979).

MNCs headquarters (HQ) often face conflicting demands for internal consistency and local adaptation. On the one hand, headquarters are pushing for integrating management structures to reduce costs and maximize global efficiency. On the other hand, in their attempt to meet the requirements of local environments (institutions, markets, cultural values, etc.), at the subsidiary level MNCs have to differentiate their management structures. Human resource management (HRM) - probably more than other management structures - is subject to such differentiation. Obviously, HQ has an interest in developing HRM policies that are broad enough and appropriate enough for several local units to adapt to their local environmental and competitive strategic needs (Schuler et al, 1993). However, empirical research (extensively published in outlets such as *International Journal of Human Resource Management*) shows that parent companies have often failed to homogenize and transfer home practices overseas. The failure is stipulated by the differences in national business system and corporate isomorphism (e.g. Ferner and Quintanilla, 1998), social-cultural and political economic characteristics of the location (e.g. Tayeb, 1998), norms and regulation in the host countries (e.g. Adler, 1986; Dowling, 1989), etc. One of the elements of the local environment that also should be considered here is the Industrial Relations (IR) system of the host country. Indeed, the diversity of IR-systems across countries poses a challenge to MNCs (Edwards and Ferner, 2000). Numerous studies provide empirical evidence for the fact that the local IR-systems set the frames for what kind of HRM a MNC can implement. The overall conclusion is that MNCs adjust their HRM to the requirements of local institutional environment and differentiate their HRM practices, especially in the countries with strong tradition for collective bargaining. If unions are strong or if labor market legislation is strict, the leeway for HRM practices is limited – and vice versa.

What has not been studied extensively is whether, in the light of globalization, the local IR-systems are adjusting to the needs of powerful MNCs. The question is what exactly is happening in the interaction between the HQ-originated HRM practices of MNCs and local IR-systems at the company level. In this paper we explore this question by analyzing various alternatives for collaboration between HRM and IR-settings. To foreshadow our conclusions, we argue that HRM implemented by MNCs could affect the local (traditional) work organization and IR-systems, even in countries with strong traditions for collective bargaining.

The rest of the paper is structured in the following way. First, we discuss possible scenarios of meetings between different kinds of IR-systems and HRM 'hard' and 'soft' approaches. Empirically, we concentrate on two of four possible scenarios, namely Northern European IR system meeting both 'hard' and 'soft' HRM of MNCs. We use Denmark as a case of a country with strong IR traditions as well as prevalent modern HRM business strategies. We analyze five industrial plants during the period of 10 years, three of them being acquired by foreign MNCs, the fourth remained Danish and the fifth kept foreign ownership. Our analysis is based on 118 interviews conducted in 1995, 2000 and 2005. The discussion of the findings reveals interesting discrepancies suggesting avenues for further conceptual and empirical work in this area. This is followed by assessments of the implications for various actors.

THEORETICAL BACKGROUND

HRM and IR researchers often have conflicting views on the role of employees in organizations. Especially in the Northern European context with long traditions for balanced IR-relations, some HRM techniques with its focus on managing employees have been perceived by IR-researchers as an unbalancing force. On the other hand, HRM practitioners as well as researchers have often perceived IR as being subsumed under HRM: "… increasingly a resurgent management has sought to determine many aspects of pay and working conditions at enterprise level on an unilateral and unitaristic basis, linked with the overall business strategy of the firm and the striving for competitive advantage in the market place" (Poole, 1998: 786). In this section, we intend to bring those conflicting theoretical perspectives together to get a better understanding of what is happening when HRM meets IR at the company level.

HRM: 'hard' vs. 'soft'

In the 1980s the concept of HRM had started to be used more widely and eventually developed into a management practice with a nascent theoretical superstructure. At the time, HRM was perceived as an answer to the competitive challenges both nationally and internationally, a management strategy, driven by business interests and aiming at creating a committed workforce (Salamon, 2000; Torrington and Hall, 1998). Already then, HRM was a diverse concept, and the challenge for the first generation of scholars in HRM was rather to find a common definition for the new quasi-theoretical trend than to deal with the context it was operating in. A common ground for many scholars seemed to be that HRM was different from personnel policy in that HR-issues became part of the strategic level in the organization (Beaumont, 1992; Storey, 1992; Sisson, 1990), at least in theory. Other keywords used by HRM researchers were commitment, flexibility, quality and individualism – concepts that brought line management a big leap away from Taylorism.

In 1990s, the theory had come into adolescence, and the more critical HRM-scholars saw two HRM extremes exercised – a *'hard'* and a *'soft'* version (Storey, 1992; Brewster, 1994; Purcell, 1992). The 'hard' version emphasizes labor as an expendable resource, tries to communicate with the employees individually, and ignores collective representation like the union and shop stewards. The 'soft' version of HRM does not generally perceive unions as a problem, and in some cases might even use unions strategically as a tool to ease implementation of new work organizations. Blyton and Turnbull (1992) point out that the 'hard' approach emphasizes the 'M' (management) in HRM while the 'soft' version focus on 'HR' (human resources). Delbridge and Turnbull (1992) as well as Beaumont (1995) point out that the 'hard' version of HRM tends to negotiate individual contracts directly with employees, sometimes with the deliberate aim to by-pass and marginalize unions. Whereas the 'hard' HRM basically tries to ignore the existence of a conflict of interest between management and employees and adopt a unitaristic view on management- employee relations, the ‘soft’ version accepts a certain amount of conflict of interest, recognizes collective negotiations and typically invites unions to the negotiation table. The ‘soft’ approach is often pluralistic.

IR: stakeholder vs. shareholder

Any country’s IR-system could be defined as a balance between the state, employers (employers’ organizations) and employees (employees’ organization, i.e. unions) (Dunlop, 1958). The strengths of each of the three parties can be more or less pronounced, and the balance in the tripartite system is one of the central issues in defining different kinds of welfare capitalisms in different countries or regions. In the western world, there are four widely accepted models of welfare capitalism (and corresponding IR-systems): the Anglo-American, the North European, the South European and the Japanese (Hyman, 2004). These also define the frame for and the modes of regulation of labor market relations. The Anglo-American system has a liberal approach to ownership and the level of social security is low. On the other hand, the North European welfare state has a strictly regulated approach to ownership and a high level of social security. The corresponding IR-systems differ in the same way. Union density is generally low in the Anglo-American system. As well known, unions have been rolled back over the last 25 years in the UK. This is not the case in the North European countries where union density remains high, and the social partners, i.e. unions and employers’ organizations, have a big say in any major welfare changes.

Embedded in the various IR-systems are fundamentally different views on whether management of an organization should serve the interest of various stakeholders (other than shareholders) or focus solely on shareholders’ interest and seek to maximize the market value on current shareholders’ stock holdings. The two different approaches - *shareholder* versus *stakeholder* - are not clear-cut nationally based, but the attitudes are often manifested in different management techniques and reflected in the IR-system. In the North European tradition a stakeholder attitude is dominating. This includes the parties at the company level, in the local institutional IR set-up, society as well as community, and the environment. The Anglo-American approach emphasizes a stakeholder perspective, i.e. a high priority is given to the owners of an enterprise, the stock market, short term and long term return on investment etc. (Rose, 2004).

It is in the meeting between the HQ's originated HRM and the local IR that the practical problems as well as possibilities arise (de Silva, 1998). Conflicts in domestically owned companies will generally be more or less institutionalized since the employers as well as employees are 'born into' the IR-system. There are grievances, but these are dealt with in manners known to the parties, although the parties might try to reformulate the existing order. However, when a MNC takes over a domestic company, a new potential for conflict arises. Since the MNC and the subsidiary might come from two quite different IR-systems, a clash between the two parties might take place. So what happens when HRM and IR meet on company level?

Table 1 indicates in a simplistic form four possible scenarios of meetings between different kinds of IR-systems and HRM approaches. When Anglo-American IR meets 'hard' HRM (shareholder/shareholder box) and North European IR meets 'soft' HRM (stakeholder/stakeholder box) we have a situation with relatively limited potential for conflicts. In the meeting of Anglo-American IR and 'hard' HRM, the HRM operates in a situation where there is a limited tradition for listening to employees as a collective. However, employees' expectations are often adjusted to that, hence clashes are few and limited. In a way, the same applies for the meeting of North European IR and 'soft' HRM. Actors inscribed in North European IR expect a relatively high level of employee empowerment. 'Soft' HRM often offers what the employees crave for: a work design that emphasizes the importance of the employee. In both cases, the degrees of convergence in terms of a common understanding of management/employee relations are quite high, and hence conflicts are limited.

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Quite differently with the two other areas – what we mark in Table 1 as the 'turbulence areas' - where 'hard' HRM meets North European IR-systems or when 'soft' HRM meets Anglo-American IR-system. When a shareholder-type MNC takes over a North European enterprise, often 'hard' HRM is meeting IR-system with a tradition for employee involvement and high union penetration. This makes a potential for conflicts, as described by several authors (see e.g. Edwards and Ferner, 2002; Collings et al., 2005). Less described and analyzed is the case when Anglo-American IR meets 'soft' HRM ('shareholder/stakeholder' box) – typically when a North European based company takes over an American subsidiary. It does not necessarily lead to conflict or turbulence, at least not between management and employees. However, turbulence might arise between management of the parent company and management of the subsidiary as the parent company might enforce a 'soft' HRM in a 'hard' IR-system – a HR-approach that local management is unfamiliar with and might even find straight out 'wrong'.

To exemplify, in the rest of the paper we take a starting point in the North European IR, i.e. the stakeholder welfare state. We consider different subsidiaries of different kinds of MNCs, representing both 'soft' and 'hard' HRM approaches. The focus of our analysis is the subsidiary, since at this level the conflicts between the IR and HRM are more visible and the effects are most detectable. The longitudinal design of the study makes it possible to investigate changes in cooperative culture and in management style of each enterprise over 10 years. Our purpose is to identify to what extent a MNC has given in to local regulation or to what extent a local IR-system has adapted to the demands of the MNC to attract capital and jobs.

METHODS

The choice of the country: Denmark

Denmark has for more than 100 years developed the IR system with a fine balance between the stakeholders in the system. Since the September-compromise in 1899, a tradition for a tripartite IR system has prevailed in which unions, employers' organizations and the state have had pretty much equal influence on labor market regulations. Wages and working conditions have for more than 100 years been negotiated between employers' organizations and unions and determined in collective agreements. While the state has had very limited direct influence on wages and working conditions, any major political decision regarding labor market (e.g. sick leave, holidays, pensions etc.) indirectly affects the next round of negotiations on the collective agreements. Hence, a long tradition for a close communication between the labor market parties and the government prevails. Employers as well as unions are heard on any major legislation regarding the labor market before it is passed through parliament.

Overall the institutionalization of the industrial relations system is high, and the system can be characterized as *voluntary* since the social partners make the rules themselves (Due et al, 1994). With a union density of around 75 per cent (Rogaczewska et al. 2004), the legitimacy of collective agreements is very high, and spill-over to sectors not covered by collective agreements is considerable. At the same time, Denmark is an example of a society in which the development of the welfare state is closely connected to balances in the IR-system. This tradition for finding compromises that can obtain the support from all stakeholders is also present on the company level, not least due to the decentralization of the collective agreements, taken place over the last 15 years. The collective (framework) agreements give management and local employee representatives room for making flexible agreements, adjusted to the need of that particular enterprise. However, to obtain that flexibility, management has to pay a price - some reduction of the management prerogative. Only if the management and employee representatives could find a common solution, the local agreement can be 'closed'. If not, the less flexible framework agreement applies.

In sum, with a strong tradition for stakeholder approach in the IR-system, Denmark offers uniquely favorably conditions for testing what happens when foreign HRM meet a stakeholder IR-system.

The choice of companies

Five companies were chosen for this study: three of them were the main sources of empirical material and two (one local and one foreign) companies were chosen as controls. One choice parameter was that companies should have experienced a take-over by foreign MNCs. Another parameter was that companies were big enough to employ a HRM manager. Generally, companies with less than 50 employees seldom have a HRM function, dedicated to that one task. All companies are industrial plants and as such the classical arena for industrial relations. Moreover, the companies were chosen from a pool of companies that had presented themselves as vanguards on HRM issues on conferences, in newspapers etc. As such, they were thought of as possible benchmarks for the development of HRM in a Danish context. Table 2 summarizes the background of the case companies as well as control group companies.

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All companies were visited for the first time in 1995, three were revisited in 2001 and four was analyzed again in 2005. The analysis in 1995 was the most comprehensive: 15 to 18 interviews were carried out with each enterprise, with top-management, middle management, union representatives and rank and file employees. All in all, 88 interviews were made in the five enterprises in 1995, and 9-10 interviews from each enterprise were transcribed. The interviews in 2000 and 2005 were less comprehensive. Then, 3 to 5 interviews with main actors like HR-managers and shop stewards were carried out on each enterprise. In 2000, 14 interviews were carried out in three enterprises, and in 2005, 16 interviews in four enterprises. In total, 118 interviews were conducted over a 10 year period.

RESULTS

Enterprise I – US owned shareholder

The enterprise was taken over by an American MNC in 1999. Until then, the company was domestically owned. The take-over started when the Danish company went on the US market and got sued by an American firm producing the same products. The court proceedings drained the Danish company economically at the same time as the company's dominating position as main supplier of high quality product vanished. Ultimately Enterprise I was taken over by the very same American MNC that had sued the enterprise.

Enterprise I's products were not part of the mother company's core products. Both management and employee representatives described the enterprise as the HQ 'cash cow': as long as it delivers a profit, it survives. Through the 1990s, the enterprise had built itself a platform and an uncontested niche for state-of-the-art products. Using this product, customers were able to run their expensive machinery four times faster. However, the market conditions had changed drastically during the last 10 years. Gradually, the demand for customers' products on the market was satisfied and even oversupplied. The consequence was that Enterprise I customers did not need to go high speed and consequently did not need the high quality products from Enterprise I. The company had become just one among many instead of being the prime mover.

Before the take-over, the relations between a charismatic CEO and an equally charismatic shop steward were based on high-trust and confidence. Wages for unskilled workers were the highest in the country, and a local agreement between management and the employee representatives secured that the enterprise recruited mainly among unemployed and/or people living more than 20 miles from the plant. The motivation was (1) not to 'steal' employees from low-wages companies in the neighborhood and (2) to secure integration of a potentially marginalized work force. The enterprise clearly was a stakeholder enterprise.

After 1999, this had changed. The American HQ did not directly interfere with production and line management, but the mother company had implemented a system of 'head-counts', i.e. measurements of performance per employee. Every three months, trimming of the company took place according to these head-counts. Additionally, reduction of waste was under close surveillance. The constant redundancies made it difficult to keep up the product quality due to lack of high- and well-trained employees. The whole situation had affected the level of absenteeism: in 1995 it was 2 per cent, in 2005 it rose to 4-5 per cent. The number of employees was almost halved over 10 years: from 360 in 1995 to 185 in 2005, adding to the insecurity in the work force. A low trust spiral replaced a high trust relation.

The HQ did not obstruct the IR systems as such; it was up to the subsidiary management to negotiate the collective agreements locally. However, by interfering in hiring/firing and waste control, the local negotiations were affected indirectly: management and employee representatives had to discuss how to keep up the quality and avoid redundancy. One of the solutions found was to freeze the wages or even cut them ('since they were already among the best in the country'). Hence, even though HQ did not influence the IR-relations directly, the implemented HRM policies had a strong effect on local negotiations.

Enterprise II – US owned stakeholder

Enterprise II was family owned through three generations. In 2000, the enterprise was taken over by an American MNC. The take-over was relatively pain free as a new generation of management had to take over within the next three to five years.

Though the company had an 'outsider' CEO, the family has always had a heavy weight in the board and thereby in all personnel-related matters.

The overtaking MNC was an investment company with some 675 enterprises (in 2005) all over the world. They expanded with 50-75 companies a year within quite different sectors: building and construction, food production, equipment for planes etc. The HQ had an overarching philosophy that was also implemented in subsidiaries. First, the subsidiaries had to have approximately the same size and turnover – around 15 million dollars and 100 employees as maximum. If a company was bigger than this, it would be split into divisions. The philosophy behind was that bigger companies risked loosing their synergy. Second, the subsidiaries' operations were controlled through key performance indicators that subsidiaries had to deliver once a month. Overall, it was generally expected that each subsidiary should deliver a surplus of 15 per cent, but variations in different branches due to specific market conditions were accepted. Once a year, subsidiaries' top management within the same sector met up at a seminar to share knowledge and exchange experiences, introducing another synergetic element. Third, the whole enterprise was managed along the lines of the old Pareto-principle. Instead of spending 80 per cent of the organization's resources to achieve 20 per cent of the output, management and employee were encouraged to identify their core competences and invest the majority of human and financial resources to develop them further, thereby constantly optimizing the company's performance. This principle prevailed in all companies bought by the American MNC. It is supposed to be part of all employees mindset – from shop floor to CEO, internally as well as externally. It was a principle aimed at trimming the organization, but very importantly, it was not used to trim the work force. Danish employees had taken-in the principle. Yet, the streamlining of the production had also meant a more Tayloristic and less challenging work routine.

In this Danish subsidiary, the work force diminished over the next 10 years, but, as it was emphasized during the interviews, job security today was significantly higher than 10 years ago. Absenteeism in Enterprise II did not change over the years – it stayed on the level of 2 per cent. This was ascribed to the fact that employees were 'informed and heard' from the very beginning.

The co-operative culture was described as a high-trust culture. The IR system was not affected by the take-over. HQ requested information on working hours rather 'out of curiosity' than because they wanted changes. The request made management and employee representatives of the subsidiary change an agreement on overtime but the change was by no means forced upon the enterprise.

Before the take-over, Enterprise II had through three generations been a stakeholder company, and this did not change after the take-over. In fact, the enterprise was in a situation where it could choose whom to be taken over by. The basic philosophy of the American MNC seemed to fit very well into the stakeholder culture of the local company.

Enterprise III – Italian owned shareholder

The enterprise was taken over by an Italian owned London based MNC in 2000. Originally, the company was a family owned enterprise, but in the 1970s 75 per cent of the company was bought by a (union controlled) domestically based investment fund. The remaining 25 per cent was bought in the 1980s. These buy-outs changed the management style from a very personal paternalistic style to a more cold and maverick management style. Already then a move from a stakeholder approach in the direction of a shareholder approach could be identified.

The Italian MNC made no secret of the fact that the take-over in 2000 was financially motivated. Even though the product line was within the same area as the rest of the MNC's subsidiaries, the goal was to turn the Danish enterprise around and resell it with a profit within five years. And at the time of the last revisit in the autumn 2005, the enterprise had just been sold.

The Italian management was very present at the enterprise. Representatives of the HQ were visiting Denmark quite often, and their suggestions on changes were formulated as 'orders more than inputs to a discussion'. All procurement decisions were centralized: the purchasing department was positioned in Italy. Management in Denmark lost competence and influence, and everybody at the Danish plant knew that the major strategic decisions were taken in Italy.

Immediately after the Italian take-over, the former "partly teamwork based organization" was turned into a Tayloristic assembly line. This was a major surprise to domestic management as well as employees, as the teamwork-based production was thought of as being the major reason for foreign companies' interest. The new work organization was perceived by employees as well as the domestic management as a major step back. The health and safety of the workers were jeopardized, since for example the standardized job sites could not be adjusted t to the different heights of the employees. In 2000, this was already a problem – and it had not changed in 2005. However, the Danish plant was benchmarked to other similar plants in the organization, and per employee productivity was lower than in other companies. Interestingly, productivity has increased by some 5 per cent after the introduction of the assembly line.

Domestic management as well as employee representatives tried to communicate with the management and employee representatives in Italy about the new work organization, but without great success. First, management style and traditions for co-operation were very different. Second, working conditions in Italy are to a high degree regulated by legislation while in Denmark they are to a high degree regulated by collective agreements. Finally, only the top manager and his assistant spoke English, which made any discussions with managers on lower levels very difficult.

Absenteeism was on the same level as it was 10 years ago, around 4 per cent. However, the workforce was reduced from 550 in 1995 to 380 in 2005. The white collar workforce took the biggest blow here: they were more than halved due to the fact that quite a few administrative tasks had been moved to HQ in Italy and London.

Local negotiations on wages and working conditions were, even before the take over, characterized as tense, starting out with rather unrealistic demands from both sides. Management ritually used the threat of 'outsourcing part or all of the production to Poland', using this threat as a leverage for adjusting the demands from the employees. However, after the Italian take over, there seemed to have developed a certain understanding from both sides (domestic management and employees) that there now is a new threat, namely the HQ in London and management in Italy, and this has enhanced the trust between domestic management and employees.

Enterprise IV – domestically owned stakeholder (control group case)

The enterprise was 100 per cent domestic and family owned. It was established in the 1950s. As oppose to all other companies in this survey, this company could not be characterized as truly global but rather international. The raw materials were from abroad, and the primarily markets were foreign. Nonetheless, there was no foreign capital invested in Enterprise IV. This set-up is typical for the many SME's in Denmark.

This company represents the classical arch typical domestically based shareholder enterprise. Relations to the environments were to a very high degree stakeholder oriented. Placed in a small municipality, the company was a main employer, thus any action on the side of the company affected the community. Management was very much aware of that. Among other thing, there was a practice of hiring disabled and potentially marginalized people. Internally, there was big tolerance towards long time sickness and absenteeism. Yet, during 10 years, the level of absenteeism has gone up just a bit (from 4 per cent to 4.6 per cent) and the workforce expanded from 250 to 450 employees.

Enterprise V – UK owned shareholder (control group case)

Already in the late 1980s, this enterprise was taken over by an English investment fund. At the time of the first investigation, in 1995, this was the only foreign owned enterprise.

The mother company supervised the enterprise closely, and only few and minor important (non-strategic) decisions were taken in Denmark. A HQ-bible had to be accepted by all subsidiaries, and a very hierarchic line of commands had to be followed. Every purchase above 4,000 Euro had to be accepted in writing by HQ in the UK. The HQ was very focused on short-term profits, a strategy that was perceived by the domestic employees and management as a result of a strong attention to shareholders – who by the way are UK unions. The enterprise is a clear-cut shareholder enterprise.

The five enterprises compared

The five companies have experienced drastic changes in their position on the global market. Three enterprises that in 1995 were domestically owned were back then trying to acquire enterprises in Europe, US, France, China or Germany with the aim to be big players in their trade. In fact, in 2006, these three companies were taken over by MNC's and have become small players in their trade, strongly dependent on other companies. Today, only Enterprise IV is Danish owned. The taken-over enterprises have lost a significant amount of autonomy, and this has affected many things at each enterprise. We will look specifically into changes in the degree of control (autonomy), level of absenteeism and management style.

A crucial element in any take-over is decisions in regards to the level of *autonomy* – if it is a conscious decision at all. The central questions are: How much is HQ deciding – and how much is decided at the subsidiaries? Inductively, we constructed a framework that was quite useful in comparing the enterprises. Overall, there are five levels of control from HQ over subsidiaries:

- **Level 1** is the most autonomous enterprises. Here, the subsidiary has control over tactical decisions and finances, work organization, HR issues and IR – the day-to-day operations and tactical decisions. The HQ takes only long-term strategic and economic decisions.
- **Level 2** are subsidiaries with autonomous control over work organization, HR issues and IR. However, here HQ decides on local tactical and economic decisions. The subsidiary is clearly a *sub;* its overall fate is decided by the parent company, and any local decision has to take the overall business plan into account.
- **Level 3** is a situation where HQ takes decisions on all major areas and HR. The subsidiary has control over the actual work organization. However, the parent company might impose HR-elements (like head-counts) on the subsidiary thereby indirectly influencing the work organization.
- At **Level 4**, the HQ controls all areas except IR-issues. Not only HR-policy, but also the actual work organization on line level is decided by the parent company with no regard to local tradition and culture. IR-issues, i.e. the wage and working conditions if decided by collective agreements, are not touched upon directly by the parent company.
- Finally, on **Level 5**, the HQ imposes control over all issues, including the IR-traditions of the country in which the subsidiary is inscribed. This is potentially the most critical case since the take over of a company might undermine the national IR-relations and the local resistance might be strong. However, the latter is dependent on the strength of unions and the national government’s attitude towards foreign investments.

Though we have suggested a typology of five levels of influence, empirically the line of demarcation might be blurred. If a MNC sets up conditions regarding working conditions before it actually invests in a host country, this might affect elements of the collective agreement – and thereby IR-traditions. Enterprise I is illustrative in this regard. Here, we find Level 2 situation, approaching Level 3. The HQ controls local economy, but by using head-counts HQ exercises a massive influence on recruitment and dismissals. Hence, it is very close to Level 3 dominance (see Table 3)

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Enterprise II is the most autonomous of the foreign owned enterprises. HQ only has control over the key performance indicators that subsidiaries had to deliver once a month. Decisions regarding work organization, HRM-policy and local economy were made on enterprise level, but the local management had to adhere to the Pareto-principle. Though it was basically a Level 1 enterprise, the autonomy was limited by that overall principle that pertain the whole company – from finances over work organization to HR-policy.

Enterprise III was the most controlled company in this study. Only IR issues were untouched by HQ. Even down to the actual division of labor and the work organization, the HQ wanted control, and the enterprise is a Level 4 organization. Finally, the last subsidiary, Enterprise V, was clearly a Level 2 organization. Obviously, we are not able to place enterprise IV, the domestically owned enterprise, in this table.

Absenteeism is a classical indicator of employee satisfaction, and in HRM studies it is often used as an organizational-level performance-related indicator of poor morale or low work satisfaction. In a Danish context, absenteeism of around 2 per cent is considered very satisfactory.

At Enterprise I, absenteeism was less than 2 per cent in 1995, but had doubled in 2005. Enterprise management as well as employee representatives stated that the continuous head-count, lay-offs and problems with keeping up the quality of work were to ‘blame’ for this. At Enterprise II, the absenteeism has remained unchanged less than 2 per cent over the years. The level of communication has remained high: already from the very beginning of the take-over the MNC management has informed local managers as well as employees about the premises of the take-over, the management style and the future of the company. At Enterprise III and Enterprise IV, absenteeism has always been quite high, around four per cent. It has not changed much over the past 10 years, though both companies have experienced a little rise.

Another aspect of take-over is the *management style* in terms of shareholder or stakeholder approaches. As shown above, Enterprise I has changed from a shareholder to a stakeholder enterprise after the take-over, while Enterprise II remain stakeholder oriented after the US take-over. Enterprise III was already on the move from stakeholder to shareholder management, but certainly got the last push by the take-over in 2000. As could be expected, Enterprise IV remains a strong stakeholder organization, while Enterprise V already in 1995 was a shareholder managed company.

If we compare absenteeism to management style (shareholder versus stakeholder), we see a potential trend: absenteeism goes up if management style changes from stakeholder to shareholder (see Table 4). Enterprise I is an example of this, while the data on the other enterprises are less clear-cut. Enterprise IV, the domestically owned enterprise, has always had a high level of absenteeism, partly due to the fact that the company used to hire people with disabilities, people who have had problems getting jobs, first generation immigrants etc. It has been a deliberate choice of the company to brand itself as a stakeholder company. The data on Enterprise V for 2005 has not been available.

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Every company taken over lost a significant amount of employees over the last 10 years, while the only Danish owned company expanded. The MNC-owned companies have lost between 31 and 49 per cent of their employees, while the Danish owned has expanded by 82 per cent. Some of this can be explained by rationalization in general and the introduction of new technologies in the different sectors. However, other intra-organizational factors played a part too. Interviews on Enterprise III revealed that the MNC had chosen to move administrative functions and some sales functions to HQ. That explained this company's loss of more than half their white-collar employees. Enterprise IV shows an expansion on both white and blue-collar employees – but relatively much more on the white-collar side

DISCUSSION

We considered subsidiaries of different kinds of MNCs representing ‘soft’ and ‘hard’ HRM approaches, but operating in the stakeholder welfare state and under North European IR traditions. The results show that when ‘hard’ HRM meets stakeholder approach on company level, the whole co-operative atmosphere might change. The flexibility of a system is dependent on the level of trust between the actors. If a system of low trust is replacing a high-trust relation (Fox, 1974), the basis for a certain work organization might be undermined – and one party or both might take back their stake in the agreement. If this tendency becomes prevalent, over the years it might change the character of a local IR-system.

When stakeholder welfare system meets ‘hard’/shareholder HRM

The findings indicate that a ‘hard’ version of HRM implemented in countries with strong unions and a stakeholder tradition *could* threaten a long tradition for co-operation. In the cases of Enterprise I and Enterprise III, we see examples of Danish companies taken over by foreign companies with a rather ‘hard’ HRM policy. In both cases, there is no evidence of HQs attempting to actually change the existing IR-relations. HQ management did not question the domestic collective agreements, nor did it try to influence negotiations at company level. In one case, the HQ management expressed their surprise with ‘the way things are done in Denmark’, questioned the rationality – but did not attempt to change things.

Still, a number of initiatives on the management side that are within the reign of management prerogative might *indirectly* affect relations between employees and local management. And by doing so, there might be a long time effect on the collective bargaining system as such. The head-count at Enterprise I provoked local management as well as employees to change the conditions for local negotiations. One solution was to keep wages down, thereby presenting a better head-count and maybe fewer people had to be laid off. Another possibility was for employees to take back some of the flexibility given in former local negotiations. Finally, when ‘one voice of protest is taken away’ from employees, another will be found. The classical collective voice is a strike, but as long as the collective agreement is running, this is illegal. Hence, employees had to make their voice heard in other more subtle ways. Enterprise I illustrates this - absenteeism had more than doubled. This was presumed to be an individual voice. However, respondents linked this directly to the new and harder HRM practices. In Enterprise III, employees tried to make their ‘voice’ being heard collectively in two ways: (1) by making a petition to the HQ in Italy to explain the different Scandinavian IR-approach to co-operation and negotiations; and (2) by trying to change the work organization through the (legally based) health and safety system, pointing out that the new assembly lines are unhealthy for the employees. The second approach is obviously a last resort that was only suggested since it seemed impossible to be heard in the co-operative system.

A long-standing tradition in the Danish co-operative system says that management should inform and listen to employees’ representatives when major organizational changes take place. HQs of Enterprise I and especially Enterprise III ignored it and hence ‘damaged’ the co-operative culture of these enterprises. The balance between management and employees was further disturbed by the respective MNCs management exercising their management prerogative to a degree that it undermines a long and strong tradition for co-operation.

When stakeholder welfare system meets ‘soft’/stakeholder HRM

At enterprise II, we have a situation in which the enterprise is taken over by a MNC with a ‘soft’ HRM policy. The reaction on the side of the subsidiary is quite detectable, despite the anxiety that a take-over often generates fear of job loss, high trust between management and employee was maintained. The whole set-up underpinning the fact that the take-over was meant to generate synergy among old and new companies generated an acceptance of basically all HQ decisions. Thus, there were no voices of opposition from the employees’ side, and absenteeism stayed low.

As to be expected, ‘soft’ HRM is much more compatible with a stakeholder welfare system with a long tradition for cooperation and involvement of employees than ‘hard’ HRM. As such, ‘soft’ HRM is a consensus-oriented approach. ‘Soft’ HRM shows respect for the existing cooperative system and compared to ‘hard’ HRM it has greater flexibility of adapting to the local IR-system. On the other hand, that very approach might create problems for IR-systems with strong unions and labor market regulations through the social partners. By implementing HRM-practices (such as flexible working hours, parental leave or pension plans), ‘soft’ HRM incorporates the needs of the employees to a degree that collective representation of their interests (via unions) becomes obsolete from the employees' point of view. Hence, the 'soft' HRM may change the individual perception of the necessity of unions. However, the perception might change should the economic conditions aggravate and management redraw the obtained benefits. For example, until the mid-1990s only few IT-employees were members of trade unions since they were able to negotiate good wages and working conditions individually. The situation changed drastically in the late 1990s and the beginning of the new millennium when the IT-bubble burst and subsequently quite a few IT-jobs were offshored. Suddenly, the IT-union membership increased drastically since employees needed legal advice, unemployment benefits etc.

The country-of-origin thesis

The results may also be informative for the home-country versus host-country discussion – the discussion whether the management-employee relations are formed by the traditions of the country-of-origin or by the traditions from the host-country. It has been argued that if MNCs invest in countries with a weak IR-system, the management-employee relations are likely to be based on country-of-origin (see e.g. Geary and Roche, 2001) and vice versa. What we see in our cases is that the strategy is by no means unambiguous. The host-country obviously has a strong IR-system; hence a host-country effect should be expected. However, in two cases (Enterprise I and Enterprise III) HRM imposed by the HQs in some regards is to be considered as "home-made", i.e. brought from the country-of-origin. Furthermore, a widespread preconception is that Anglo-American companies are ethnocentric shareholder-oriented with a relatively 'hard' and country-of-origin HRM-policy, while European MNCs are softer stakeholder-oriented and host-country oriented. In this regard, it is interesting that the most controlled company is the subsidiary of the Italian MNC (Enterprise III) while the most autonomous one is the one of the American MNC (Enterprise II). Hence, the findings suggest that such stereotypes about management styles should be used cautiously. Not least, during the process of the Enterprise III take-over, Italian management showed very little interest in co-operating with local management, despite the fact that both parties are European. This was opposite to Enterprise II where local management as well as employees experienced a take-over in which the American HQ management was very informative about changes and involved employee representatives in all major organizational decisions. Finally, the data questions the widespread presumption that the western welfare states (like Denmark) tend to export low-skilled jobs and move up the value chain by doing so. When a company is taken over, the result might as well be that the MNC drain the company of the higher skilled jobs, leaving the manufacturing blue-collar jobs in the subsidiaries – as long as they produce to HQ's satisfaction.

CONCLUSION

MNCs are far from organizations operating independent of national borders: both practitioners and researchers realize that external environment (including local institutional context) might cause certain degrees of local adaptation in management practices. In this paper we studied how MNCs deal with the local IR-systems. We questioned whether MNCs' HRM might affect the elements of local environment, in particular the traditional work organization and IR-system.

The Danish IR-system is characterized as very decentralized, based on high trust between the three parties and fine tuned conflict management. The decentralization has been initiated by a need for more flexibility at the company level and sensitivity to the individual company's needs. However, a prerequisite for such a decentralized system is a reciprocal original stability, based on all parties' respect for the written and unwritten rules in the system. Foreign take-overs might challenge this.

We found that none of the studied MNCs directly tried to interfere in local IR. Across the four foreign owned companies, the local negotiations on wages and working conditions seem generally untouched. However, a deeper analysis of cooperation and work organization at company level shows differently. For instance, Enterprise I has been known for high level of quality-consciousness and self-discipline among blue-collar workers. Those features were obtained through building-up of trust over many years, which made it possible to obtain more flexibility in the collective agreement both for employers and employees. But when American HQs introduced the head-count system ('hard' HRM), it resulted in increased absenteeism and decreased commitment among local employees – the very features which originally made Enterprise I attractive for foreign investors. In the long run, the fine balance created by the stakeholder IR on the company level might be affected.

The findings suggest that ‘soft’ HRM works very well with a shareholder approach, as the case of Enterprise II indicates. On the other hand, a ‘soft’ HRM management delivers so much in terms of wage and working condition that the role of the employee representatives seems superfluous. Further, under ‘soft’ HRM employees begin to quest for a more individualized job profile – a quest that is fulfilled via individualized performance appraisals, flexible compensation systems, flexible time, etc. That also provides challenges to unions promoting solidarity and collectivism. So, new approaches to HRM create a strong pressure on local unions “to redefine some of their roles and become more strongly involved in HR issues” (Rogaczewska et al, 2004: 275)

The possible internationalization of capital flows, goods and technology offers companies possibilities for outsourcing and offshoring. Managers could use it in negotiations by pointing out that they stay despite favorable conditions offered elsewhere, thereby also indicating that investing elsewhere is a possibility. In this way, the traditional options “exit-voice-loyalty” (Hirchman 1970) previously deployed extensively by trade unions in their negotiations with employers, now a property of employers. For instance, in Enterprise III, the yearly negotiations took place under the assumption that ’if you do not agree, we might outsource to Poland’.

Overall, in lights of globalization, the traditionally balanced relations between employers’ organizations and unions are affected. MNCs day-to-day operations might offset the balance of national IR-systems, both directly and indirectly.

Naturally, our research has limitations. First, as our study is solely qualitative we have been restricted from any ‘thick’ generalization. We restricted ourselves to the analysis of stakeholder welfare system and hence considered only two scenarios out of four scenarios presented in Table 1. In particular, we have focused on how the North-European IR-system is affected (directly and indirectly) by the way MNCs implement their HRM practices (‘hard’ and ‘soft’). Further, empirical focus was limited to examining five industrial plants, all located in Denmark. Clearly there is a need for a similar study with a much larger sample and country representation representing both stakeholder and shareholder IR systems, in the hope that some of the overlooked relations will be possible to consider. If that is possible, the above mentioned limitations become opportunities to be explored.

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Table 1. IR-systems and HRM approaches

	'soft' HRM	**'hard' HRM**
North European IR	Stakeholder/stakeholder	Stakeholder/shareholder
Anglo-American IR	Shareholder/stakeholder	Shareholder/shareholder

Turbulence areas

Table 2. Background information

	Enterprise I		Enterprise II		Enterprise III		Enterprise IV		Enterprise V	
	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005
Industry	Plastics		Electro mechanics		Automats		Plastics		Machinery	
Ownership	DK	US	DK	US	DK	IT	DK	DK	UK	UK
Number of employees	360	185	80	53	550	380	250	456	335	N/A
Number of blue-collar employees	260	138	50	26	350	295	175	243	200	N/A
Number of white-collar employees	100	49	30	27	200	85	75	213	135	N/A
Ratio white-collar/blue-collar	1:2.6	1:2.8	1:1.7	1:1	1:1.8	1:3.5	1:2.3	1:1.15	1:1.5	N/A

Table 3. Level of influence from HQ to subsidiary

Grey indicating HQ control, white indicating subsidiary autonomy

	Enterprise I	Enterprise II	Enterprise III	Enterprise IV	Enterprise V
Level 1: Strategy and overall finance					
Level 2: Tactics and local economy					
Level 3: HR policy					
Level 4: Work organization					
Level 5: Industrial Relations					

Table 4. Five enterprises compared

	Enterprise I		Enterprise II		Enterprise III		Enterprise IV		Enterprise V	
	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005
Absenteeism	< 2 %	4-5 %	< 2 %	< 2 %	4 %	4,5 %	4 %	4,6 %	5-7 %	N/A
Management style	Stake-holder	Share-holder	Stake-holder	Stake-holder	Between stake & share	Share-holder	Stake-holder	Stake-holder	Share-holder	N/A
Per cent employees compared to 1995	51		66		69		182		N/A	