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**DETERMINANTS AND CONSEQUENCES OF HUMAN RESOURCE  
INTEGRATION-RESPONSIVENESS ISSUES IN MULTINATIONAL  
HUMAN RESOURCE MANAGEMENT**

**A doctoral dissertation submitted to the**

**Division of Research and Advanced Studies  
of the University of Cincinnati**

**in partial fulfillment of the  
requirements for the degree of**

**DOCTOR OF PHILOSOPHY**

**in the Department of Management  
of the College of Business Administration**

**1997**

**by**

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May 27, 1997

I, Ravi Dharwadkar,

*hereby submit this as part of the requirements for the degree of:*

Ph. D.

*in* Management

*It is entitled* Determinants and Consequences of  
Human Resource Integration-Responsiveness Issues  
in Multinational Human Resource Management

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## **ABSTRACT**

Most Strategic International Human Resource Management (SIHRM) models have focused on strategic choice as the major determinant of multinational human resources management, but have neglected the importance of environmental determinism in influencing subsidiary HRM within a subsidiary's national context. The aim of this thesis is to build on the efforts of SIHRM scholars and incorporate environmental determinism into SIHRM frameworks using institutional theory. According to institutional theory, institutional environments are characterized by regulatory structures, governmental agencies, laws, courts, and professions (Oliver, 1991). Institutional environments influence "common understandings of what is appropriate and fundamentally meaningful behavior" (Zucker, 1983). Thus, in contrast to most strategic choice perspectives wherein multinationals pursue competitive, rational approaches that seek to maximize efficiency, institutional approaches emphasize these organizations' need to adopt "a set of highly established and culturally sanctioned patterns of action and expectations." Institutional theory uses a "non-task" environmental perspective and focuses on non-choice behavior in conforming to collective norms and beliefs due to invisible pressures (Oliver, 1991).

In order to incorporate environmental determinism using institutional theory, this thesis appropriates the concepts of Integration and Responsiveness from the seminal work of Prahalad and Doz (1987) to SIHRM. This dissertation integrates literatures from multinational HRM, institutional theory, labor economics, industrial relations, and sociology to develop theory and test several hypotheses. Specifically, this dissertation aims to answer the following questions: First, how does a multinational's international strategy and local institutional factors influence human resource integration and responsiveness for salaried and hourly employees in multinational subsidiaries? Second, how do human resource integration and responsiveness along with local institutional factors influence the adoption of headquarters' career systems for these two sets of employees?

This thesis uses the Indian context to validate the theoretical framework. India has long-standing relationships with multinational corporations. In addition, it has a highly complex institutional environment for HRM that has evolved over the past 120 years. The theoretical model is validated in this context using three data sources - surveys, case studies, and historical analysis. The LISREL model provides strong support for using the institutional dimension in future SIHRM research and both the case studies and the historical context provide support for the statistical analyses.

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# CHAPTER I

## INTRODUCTION

### **Nature of the Problem**

Recently, scholars have started focusing on Strategic International Human Resource Management (SIHRM) in multinational subsidiaries by developing integrative theoretical frameworks (Milliman, Von Glinow, and Nathan, 1991; Schuler, Dowling, and De Cieri, 1993; Taylor, Beechler, and Napier, 1996) and conducting empirical studies (Martinez and Ricks, 1989; Yuen and Tak Kee, 1993; Beechler and Yang, 1994; Rosenzweig and Nohria, 1994; Hannon, Huang, and Jaw, 1995). Based on the two dimensions of the Hrebiniak and Joyce (1985) framework, i.e., strategic choice and environmental determinism, most SIHRM frameworks (Milliman, Von Glinow, and Nathan, 1991; Taylor, Beechler, and Napier, 1996) focus on the strategic choice dimension. This thesis builds on the efforts of these scholars by adding an important dimension of environmental determinism, namely the institutional environment, to current SIHRM frameworks. Institutional environments are characterized by regulatory structures, governmental agencies, laws, courts, and professions (Oliver, 1991). Institutional environments influence "common understandings of what is appropriate and, fundamentally meaningful behavior" (Zucker, 1983). Thus, in contrast to most competitive rational approaches, wherein maximum efficiency behavior is sought, in institutional approaches, organizations seek to adopt "a set of highly established and culturally sanctioned patterns of action and expectations."

However, most contemporary research in management has traditionally ignored or marginalized the role of the institutional environment. Freidland and Alford (1991) state the following:

*"One cannot derive a theory of society from the historical individuality that those institutional transformations created...Beginning with individuals as rational-instrument actors takes as a theoretical premise an analytic category which has*

*been shaped by institutional transformation. As a result, dominant institutional logics are imported in such a way as to become invisible assumptions. And as we argue, specifying the institutional bases of individual and organizational identities, interests, and actions is not simply a problem that plagues those who study societal transformations over the long duration. It is also a problem for contemporary social analysis."*

In order to address the above shortcoming, organization theorists have explicitly recognized the role of the "institutional environment" and have developed institutional theory for understanding "how dominant logics get imported into the organizational reality so as to become invisible assumptions." The origins of contemporary institutional theory can be traced to two seminal articles, Meyer and Rowan (1977) and DiMaggio and Powell (1983). Institutional theory has redefined the rationalist perspective of research by incorporating elements of myth, legitimacy, acceptability, mimetic behaviors, and societal normativism. Meyer and Scott (1992) state the following about the institutional environment:

*"...Such is even more the case when institutional environments are considered. The beliefs, norms, rules, and understanding are not just "out there" but additionally "in here." Participants, clients, constituents all participate in and are carriers of the culture. Thus, institutional environments are notoriously invasive. To paraphrase Pogo, We have met the environment and it is us."*

Strategic HRM scholars have rarely considered the constraints of the institutional environment on the adoption of HRM strategy (Dyer, 1984). Brewster (1994) attributes the non-adoption of external influences to the notion of organizational autonomy due to the conditions that existed in the US in the 1960s and 1970s. He suggests that:

*"Central to the notion of HRM as currently propounded is the notion of organizational independence and autonomy. Describing and prescribing HRM strategies for organizations implies that organizations are free to develop their own strategies. Guest (1990) has argued that this view of freedom and autonomy in HRM is peculiarly American - related to the American's view of their country as a land of opportunity in which any individual, through hard work or self-improvement, can be a success, with the ideal model of the rugged individualist. These ideals are reflected in the comparatively low levels of support, subsidy, and control provided, or at least commonly understood to be acceptable from the state."*

According to Brewster (1994), European organizations have to deal with issues of limited autonomy. These issues arise from the European integration efforts at the national levels, nature of ownership at the organizational levels, and trade unions and other consultative labor arrangements at the functional HRM levels. Other scholars (Acuff, 1984; Paauwe and Dewe, 1995; Gronhaug and Nordhaug, 1992, Harzing and Van Ruysseveldt, 1995), typically from Europe, have also recognized the importance of external influences. While some scholars (Gronhaug and Nordhaug, 1992) have specifically focused on the macroenvironmental influences at the national level, others (Acuff, 1984) have extended the realm of such influences to the international context. Acuff (1984) considers governments and the state of the economy as the major environmental influences on international HRM. Paauwe and Dewe (1995) extend Acuff's list to include unions, consumer organizations, and other interest groups, and state that such groups tend to put more pressure on foreign rather than on local companies.

However, until now little work in SIHRM has acknowledged the importance of a country's institutional environment and its potential affect on human resource practice. Examples of many multinationals' (often ineffectual) interactions with elements of the institutional environment (e.g., unions, regulatory authorities, etc.) of a host country have been frequently cited in the news. Mitsubishi's noncompliance with EEO/AA laws in the United States, Toys R'Us' refusal to deal with managerial and non-managerial unions in Sweden, Volkswagen de Mexico's union resistance to restructuring, are but a few examples. In emerging markets such as China and India, institutional environments have constrained the use of human resources due to the nature of these countries' legal systems as well as their more socialist political orientations. These above examples point to the importance of the institutional macroenvironment and its influence on HRM practice.

Using the work of Prahalad and Doz (1987), this thesis suggests, can help to address this gap in SIHRM. Specifically, Prahalad and Doz (1987) have developed an Integration-Responsiveness Grid(IR) in multinational strategy. According to them, multinationals can be viewed as a set of differentiated structures and processes, and these structures and processes exist in the subsidiaries of the multinational. They further posit that some of these structures and processes are influenced by environmental forces specific to the host country and others by global imperatives of the multinational. Thus, they face simultaneous pressures for conformity to local conditions and imperatives for global consistencies. The IR Grid highlights the nature of tension between the forces for global integration and national responsiveness. Empirical work applying the IR grid within the field of SIHRM has been limited thus far, with Hannon et al (1995) representing a notable exception. Based on this grid we appropriate the concepts of integration and responsiveness to SIHRM, i.e., Human Resources Integration and Human Resources Responsiveness. Scholars in SIHRM (Hannon et al, 1995) have operationalized these constructs; this dissertation builds further on their exploratory work. In addition, to incorporate the influence of the institutional environment, we draw from institutional theory, internal labor market theory, and career systems management to consider the influence of the institutional environment on: (1) HR responsiveness, and (2) eventual similarity of the HRM systems of the subsidiary to the parent's HRM systems.

### **Research Questions**

Specifically, this research proposes to build theory by integrating literature from multinational HRM and institutional theory from organization theory, labor economics, industrial relations and sociology and develop propositions that can be empirically investigated in order to answer the following questions: First, how do organizational global strategy and local institutional factors influence human resource integration and

responsiveness for salaried and hourly employees in MNC subsidiaries? Second, how do human resource integration and responsiveness along with local institutional factors influence the adoption of headquarters' career systems for these two sets of employees?

In order to do so, we consider career systems (CSM) and internal labor markets (ILMs) to be similar constructs and draw on work on ILMs for our theoretical development. Scholars from strategy and HRM have been cognizant of the strategic importance of managing human resources in achieving organizational objectives and using CSM as a meaningful strategic response in terms of staffing policies of organizations that are trying to achieve their corporate objectives (Prahalad and Doz, 1987; Sonnenfeld and Peiperl, 1988). Typically, management scholars (Sonnenfeld and Peiperl, 1988) define career systems as a "collection(s) of policies, priorities, and actions that organizations use to manage the flow of their members into, through, and out of the organization over time." Career systems also include: 1) supply flow, that is, the openness of the career system to external labor markets at other than entry levels and; 2) assignment flow, that is, the criteria by which assignment and promotion decisions are made. According to Beer, Spector, Lawrence, Mills, and Walton (1984) influences of society on career systems practices can be felt through governmental legislation, regulatory agency policies, trade unions, and host of other institutions which impact the economic and social well-being of the society as a whole. In general, however, management scholars work under the assumptions of organizational strategic choice and often ignore the role that these important constituents play in affecting HRM and CSM policies and practices.

Labor economists and sociologists have developed similar career systems concepts but from a different perspective. Doeringer and Piore (1971), in their seminal work on internal labor markets, have defined ILMs as an administrative unit within an organization where allocation and pricing of labor is governed by administrative rules and procedures. Other scholars have identified specific facets that characterize ILMs.

Some scholars define ILMs broadly. For example, Dunlop (1988) includes hiring, transfers, promotions, temporary layoffs, permanent layoffs, and retirement as facets of ILMs. While others (Althauser and Kalleberg, 1981) consider ILMs more narrowly to have the following three basic structural characteristics: job ladders, entry only at the bottom of the ladders, and movement along the ladders based on acquiring and developing skills.

Much of the work on ILMs seems to have been carried out by labor economists and industrial relations scholars. While there is no apparent dichotomy between ILMs as defined by labor economists (Doeringer and Piore, 1971, Dunlop, 1988, Kaufman, 1988) and the CSM defined by management scholars (Sonnenfeld and Peiperl, 1988; Beer et al, 1984), the extant literature seems to be divided as a function of employee type. Most studies on ILMs focus on non-managerial or hourly workers while studies on career systems emphasize managerial employees. For example, Raghuram (1992), Allen (1991), Blonder (1983), and Schuler and Jackson (1987) are some management-based studies that consider salaried employees. On the other hand, scholars from sociology, labor economics, and industrial relations like Pfeffer and Cohen (1984) and Dunlop (1988) tend to focus more on the hourly employee. This results from the different perspectives that give rise to the two so-called different analytical constructs - ILMs and CSM, that are essentially similar in essence in that they both consist of staffing, recruitment, promotions, training, transfers, and exits.

### **Significance of Research**

This research differs from previous research in multinational HRM in four ways. Institutional theory has seldom been used in SIHRM frameworks and little theory building and empirical research has been done in CSM in the multinational context (Wright and McMahan, 1992). I propose to use the multinational HRM perspective (Prahalad and Doz, 1987; Beechler et al, 1996; Hannon et al, 1995) and the institutional



perspective (Wright and McMahan, 1992; Carroll, Goodstein, and Gyenes, 1988) along with the extant literature on multinational integration-responsiveness grid to understand the HRM integration and responsiveness as well as career systems management in subsidiaries. Most research on SIHRM has ignored the role of the legal, social, political, and regulatory institutions in the host country. This study will identify such institutional elements in a particular context using a historical perspective and then identify the nature of influences of this environment using both quantitative and qualitative methods. The study, besides adding a new theoretical dimension to SIHRM, will also consider some managerial strategic imperatives in dealing with this environment.

Second, few studies have considered the implications of the IR grid for functional strategies and practices in multinational corporations. Prahalad and Doz (1987, p 35) have noted that IR pressures may affect functions within a business differently. This study will specifically deal with the implications of the IR grid for subsidiary HRM. Hannon et al (1995) have extended the IR framework to multinational HRM and developed a meaningful categorization of multinational HRM strategy based on global integration-local responsiveness dimensions. In this proposal, we build on their exploratory effort and test the usefulness of the IR framework in understanding subsidiary CSM in a strong institutional context. Hannon et al (1995) used a resource dependence perspective to highlight the importance of integration-responsiveness (IR) in Taiwanese subsidiaries. Resource dependence theory uses a "task" environment perspective and focuses on active choice behavior in coping with interdependencies in a scarce resource situation with visible pressures (Oliver, 1991). The institutional perspective, while subscribing to the notion of "organizational choice constrained by multiple external pressures" (Oliver, 1991), differs radically from the resource dependence perspective. Institutional theory uses a "non-task" environmental

perspective and focuses on non-choice behavior in conforming to collective norms and beliefs due to invisible pressures (Oliver, 1991).

Third, much research in multinational HRM has been in the area of expatriate management (Harzing, 1995; Blonder, 1983; Briscoe, 1995). According to Harzing (1995):

*"International management research itself is also rather ethnocentric. International human resource management is often equated with expatriate management. There is a large and growing number of studies on the problems encountered in recruitment and selection, training, compensation, career development and repatriation of expatriates. However, studies that focus on host- or third- country nationals do not abound."*

This is no doubt a very important area of research, which needs to be complemented by research for other employees of subsidiaries. Few studies have explicitly considered managerial and non-managerial employees simultaneously. Career systems for managers and internal labor markets for non-managerial employees are essentially similar concepts, and allow us to use diverse literatures from the respective domains in an integrative manner. Thus, this is one of the first studies in the multinational context that considers two sets of host country employees. This research is complementary to the existing research on multinational HRM and attempts to build a more comprehensive theory of multinational HRM.

Finally, this research will use subsidiaries in an emerging market economy for testing the hypotheses. Most previous research focuses on the multinational HRM in the industrialized countries (Rosenzweig and Nohria, 1994, Beechler and Yang, 1994; Pil and MacDuffie, 1995). For example, subsidiaries of non-US multinationals in the US or the Japanese transplants in the United States are used as context of study. With increased industrialization, growing foreign direct investment, and huge potential markets, developing countries like China, India, Indonesia, and Malaysia are becoming increasingly important locations for MNC operations. Thus, a study that specifically focuses on organizational processes in such countries, has both prescriptive and

descriptive implications for academics and managers. In this study, we will use the Indian context as it has a long history of multinational involvement and a strong institutional environment for HRM (Wolpert, 1993; Vernon, 1977). India is also one of the largest emerging markets according to the US Department of Commerce<sup>1</sup>.

### **Thesis Organization**

This dissertation is organized as follows. The second chapter reviews literature from SIHRM, institutional theory, and multinational management. The third chapter develops the theory and specifies the hypotheses to be tested. Chapter four contains the description of the research context. The fifth chapter covers issues relating to research methodology. Chapter six delves into the results. The seventh chapter discusses the results. The eighth and final chapter contains some conclusions that can be drawn from the results and the limitations of the study.

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<sup>1</sup>U.S. Department of Commerce refers to the following fast growing economies as emerging markets: China, India, Brazil, Mexico, Indonesia, South Korea, South Africa, Turkey, Poland, and Argentina

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **Strategy and Human Resource Management**

The notion of aligning HRM practices with the business strategy has been a development of the eighties (Olian and Rynes, 1984; Milkovich, 1988; Dyer, 1984). Most of the literature in this area has focused on developing conceptual models with normative implications. Recently, some empirical studies have appeared. Wils (1984) conducted a study to examine the employee utilization and allocation procedures in firms with different business strategies. He concluded that such practices varied systematically with business strategy. In a study conducted among 20 industrial firms, Kerr (1985) examined the relationship between diversification and reward systems. He identified three clusters of compensation systems, based on hierarchical structures, performance, or a mixture of both. Firms with steady strategic postures used hierarchy based systems that rewarded employee tenure and helped the firm maintain its current position. Firms pursuing growth strategies adopted performance based systems and rewarded employees for helping the organization in the pursuit of its growth goals. Other scholars (Golden and Ramanujam, 1985; Guthries and Olian, 1991) have conducted empirical analyses in similar small-sample studies and have generally found some support for the business strategy-HRM link.

Few studies have systematically considered large samples to study the same phenomenon. Studies conducted by Schuler and Jackson (1987), Balkin and Gomez-Mejia (1989), Govindrajan (1989), Raghuram (1992), Snell (1992) and Snell and Dean (1992; 1994) are a part of this newly emerging trend. Schuler and Jackson (1987) investigated the links between human resource practices and strategic postures in a study across 304 business units. Firm strategies were classified as follows: profit extraction, dynamic growth, and turnaround. They reported that profit extraction oriented firms

were likely to have higher job specificity and greater amounts of training. Growth strategy oriented firms had low job specificity and short-term oriented training. Compared with these two sets of forms, turnaround strategy oriented firms had lowest job specificities and the least amount of training.

Studies have also focused on specific aspects of HRM systems. Balkin and Gomez-Mejia (1989) and Dean and Snell (1994) have specifically considered the influence of firm strategy or firm manufacturing practices on compensation policies. Using the strategic typology of growth strategy and maintenance strategy, Balkin and Gomez-Mejia (1989) compared the variation of compensation strategies along three dimensions: market positioning, pay mix, and pay policy choices in 192 business units. They concluded that growth strategy was associated with the existence of weaker market position and use of incentives while the maintenance strategy was associated more with use of salaries and benefits than incentives. Snell and Dean's (1994) study of 160 plant managers found that when integrated manufacturing, comprising of advanced manufacturing technology, just-in-time practices, and total quality management, was coupled with "knowledge-based" jobs, compensation systems emphasized group-based incentives, salary, and seniority-based pay vis a vis individual incentives, hourly pay, and skill-based pay.

Snell and Dean (1992), in a similar study, investigated the influence of integrated manufacturing on staffing, training, performance appraisal, and reward systems. They reported that advanced manufacturing technology was positively related to selective staffing, comprehensive training, developmental appraisal, and externally equitable reward systems for "operations" employees. Total quality management demonstrated similar relationships for the "quality" employees. Others (Snell, 1992; Govindrajana, 1989) have focused exclusively on top management characteristics and implications for business strategy or influence of contingency variables like product market variation and work flow integration on the nature of control systems for top management. Typically,

most studies, both small-sample, case-based studies, and large-scale empirical studies have identified some links between business strategies or operational practices and the usage of certain human resource practices based on the normative conceptual models. However, very few studies have exclusively considered the influence of institutional factors on the HRM practices. Some studies (Snell and Dean, 1992; Schuler and MacMillan, 1984) have included some variables reflecting the institutional factors not as contemporaneous variables but as variables that inhibit or moderate or mediate the strategy-HRM fit. For instance, Snell and Dean (1992) controlled for unions and size of the establishment while examining the integrated manufacturing-HRM links.

### **Multinational Strategy and Subsidiary Human Resource Management**

Globalization has added interesting dimensions to HRM. Literature in this area is methodologically similar to the literature in the business strategy-HRM area. While three integrative conceptual models (Millman, Von Glinow, and Nathan, 1991; Schuler, Dowling, and DeCieri, 1993; Taylor, Beechler, and Napier, 1996) have been developed, most empirical work in this area is in the case study tradition.

Some leading scholars in this area (Evans, Doz, and Laurent, 1990; Pucik, Tichy and Barnett, 1992; Allen, 1991) have conducted rich case studies that identify the uniqueness of global management. According to them, most organizations are keen to implement "the one best way" of management but at the same time the demands of local stakeholders lead to the conflicting needs of centralization and decentralization. Evans, Lank, and Farquhar (1990) have summarized the work of leading experts and practitioners in this area. In doing so, they have identified some of the problems of international HRM as follows: management development of international managers, problems of executive development, getting talented managers of local management leashes, and problems relating to expatriate management. Similarly, Evans and Lorange (1990) have also recognized the dilemma of centralization and decentralization using a product-market logic and socio-cultural logic. Companies with compatible strategies

(global adaptive strategies with high product-market integration or polycentric adaptive strategies with low product market integration) develop mixed human resource management strategies. Human resource management is global and centralized for senior executives and those with such potential, though for all other employees the human resource management approach is polycentric and decentralized (Evans and Lorange, 1990). Van Houten (1990) has documented the implication of globalization for HRM at Phillips using a similar perspective, emphasizing the importance of dealing with identifying potential top managers.

Prahalad and Doz (1986) have articulated a more explicit framework for studying the issues of control and variety in MNC subsidiaries. Their concept of strategic control is positioned in a Cartesian framework with the following three dimensions: type of business, type of ownership, and type of subsidiary, with decreasing strategic control along the three dimensions as we move away from the origin. Further, they provide prescriptions of a normative nature with regards to the orientations of MNC top managers in order to balance the demands of local stakeholders and demands of global priorities, keeping in mind the tradeoffs involved. Even with issues of controlled variety, the emphasis seems to be on managing the top managers and leave other issues alone.

Edstrom and Lorange (1984) identified the traits and major strategies of MNCs along with their implications for HRM, using a sample of four Swedish firms. They examined the process by which HR had gained position in the firm's strategic management. Country-based and global MNCs in their sample had different ways of dealing with specific aspects of HR such as selection, recruitment, management development, and organization development. Increased emphasis was placed on formalized approaches as a firm's multinational activities expanded.

Bartlett and Ghoshal (1988; 1989; 1992; Ghoshal and Bartlett, 1988; 1990) have carried out extensive case studies in some of the leading MNCs all over the world. They

have consistently found that globalizing and localizing forces are working simultaneously in many of the industries. While the main focus of their research has been related to overall strategy in the global context, they have consistently emphasized the importance of the management of human resources in managing that success. For example, they have identified the management of personnel flows as an important responsibility transfer mechanism in Matsushita, making a case for effective global integration policies. At the other extreme, they have carefully analyzed Phillips as an organization that has emphasized effective local management. They identified three factors: (1) use of a cadre of entrepreneurial expatriates; (2) tight functional integration within subsidiaries; and (3) dispersion of responsibilities along with decentralized assets. All these factors that were central to the development and maintenance of its effective local management system and at the same time assisting coordination in a globally integrated organization. Thus, both Matsushita and Phillips, have very different perspectives on management of global HR. In Matsushita, HR role in the global strategy has been to assist functional integration and use expatriates as temporary representatives of the parent country in the host country. A typical Matsushita expatriate manager would spend a few years in a subsidiary and then return to headquarters. Phillips on the other hand, had expatriate managers who worked together and built close working relationships among themselves. Given the nature of their expatriate assignments and the organization's explicit use of entrepreneurial expatriate cadres, the career systems that resulted in both these organization are in sharp contrast to each other.

These case studies along with empirical work in business strategy-HRM and organization theory have led to the development of three conceptual frameworks of SIHRM. The first model (Milliman, Von Glinow, and Nathan, 1991) uses the concepts of "fit" from congruence theory in conjunction with organizational life cycles to develop propositions regarding "fit" and "flexibility" of HR in subsidiaries and develops propositions relating these concepts to performance over a firm's life cycle. Using the



dimensions of location of fit - internal fit within IHRM functions and external fit of IHRM to organizational context - and level of analysis - within organizations and outside organizations - the authors develop a fourfold typology of fits. The internal-within fit involves the alignment of various IHRM functions at the organizational level. For example, selection and recruitment systems and appraisal and training systems should all be consistent with each other. The external-within fit involves the congruence between the IHRM function and the organizational life cycle. Newly emerging multinational organizations would be expected to have a lesser degree of fit in their HR practices than organizations in later parts of the life cycle. The external-outside organizational fit deals with the congruence of both corporate IHRM practices and subsidiary HRM practices within both the cross-national and cross-cultural environments. Finally, the internal-outside organizational fit deals with the congruence between IHRM functions of the subsidiary and IHRM functions at the corporate level.

In addition to "fit", the model defines the concept of flexibility - capacity of HRM to facilitate the organization's ability to adapt effectively and in a timely manner to changing or diverse demands from either its environment or within itself (Lengnick-Hall and Lengnick-Hall, 1988). The model posits that fit and flexibility will be accorded importance depending on the stage of the life cycle. Thus, as organizations move from the organizational initiation stage of the life cycle to the strategic integration stage of the life cycle they start seeking higher levels of fit and flexibility. This results in an increased fit between the corporate IHRM function and the subsidiary IHRM function.

Schuler, Dowling, and De Cieri (1993) describe an all comprehensive integrative framework of strategic international human resource management. Factors considered in their framework include Strategic MNC components, exogenous factors, endogenous factors, issues and functions, and HR concerns and goals. The authors reiterate the importance of interunit linkages as focal points in the discussion of international HRM.

The key issues being balancing the need for coordination and control and yet maintain the ability to be locally responsive.

Schuler et al (1993) also identify the forces or contingencies that force MNCs to match their subsidiary practices to the corporate practices and at the same time be adaptive to local requirements. The exogenous factors that necessitate adaptation include competitors, environmental dynamism and complexity, political exigencies, economic imperatives, legal entities, and socio-cultural influences. Endogenous factors include structure of international operations and competitive strategy. The overall contribution of this conceptual model lies in the numerous theoretical perspectives that provide the foundation for this integrative framework.

Finally, Taylor, Beechler, and Napier (1996) have proposed that subsidiary HRM is influenced by the SIHRM orientation of the headquarters as well as by certain characteristics of the subsidiary. SIHRM orientation is posited to be influenced by the parent's international strategy and top management's beliefs. The characteristics that influence subsidiary HRM include the role of the subsidiary in the multinational network, its method of establishment, and cultural and legal distances from the parent's environment. An important contention of this framework is the employee group's criticality, i.e., the more important the employee group is for achieving the organizational objectives, the more similar will be their HRM systems with respect to the headquarters.

In addition to these three theoretical frameworks, there are many empirical studies. Martinez and Ricks (1989), using a resource dependence perspective, examined the influence of resource dependencies in terms of their relative importance, number of expatriates, and nature of ownership on three human resource management practices -- selection, compensation and benefits, and training and development -- in three types of key managerial positions (finance, marketing, and production) in US firms in Mexico. As hypothesized, both resource dependence and affiliate importance

were positively correlated with US parent influence. Yuen and Kee (1993) compared the HRM practices of Singaporean subsidiaries of Japanese and American MNCs to those of local companies. They found that Japanese subsidiaries tended to adopt local practices while American personnel practices indicated greater headquarters influence.

Rosenzweig and Nohria (1994) considered the role of parent characteristics, local affiliate characteristics, and expatriate flows in influencing the HRM in subsidiaries. They found that similarity to local practice was influenced by nature of founding, local dependence, unions, presence of expatriates, and communication flows. Similarly, Pil and MacDuffie (1995) considered the Japanese and local influences on HRM practices of Japanese transplants in North America. They found that although the critical pillars of the Japanese HR system such as life-time employment, enterprise unions, and seniority wages, were not transferred to the transplants, most of the essential characteristics were. The transplants made extensive use of teams in their work processes in deciding on use of technology, pace of work, selection of team leaders, and ways and means of getting the work done.

Hannon et al (1995), using a resource dependence framework in the manner of Martinez and Ricks (1989), considered interorganizational interdependency variables and their influence on the integration and responsiveness dimensions of IHR strategy. They concluded that subsidiaries had different strategic responses with respect to the multinationals IHR strategy depending on the need to balance global integration and local responsiveness. Host institutions' resource dependence and parent resource dependence influenced IHR globalization and local resource dependence influenced IHR localization. Thus, most theoretical and empirical articles support the normative contention that the parent's international strategy and SIHRM orientation influence subsidiary HRM. In addition, the resource dependence perspective<sup>2</sup> from organization

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<sup>2</sup>See Oliver (1991) for a detailed comparison of Institutional and Resource Dependence perspectives.

theory seems to be a popular perspective for understanding the amount of influence from both the parent and the local environment.

### **Institutional Theory and Human Resource Management**

The role of institutions and the institutional environment has been explicitly recognized in the not-for-profit sector in the United States (Caroll, 1993; DiMaggio and Powell, 1983; DiMaggio and Powell, 1991; Meyer and Rowan, 1977; Scott, 1987). The leading proponents of this theory, Meyer and Scott (1992) emphasize the importance of the nature of the institutional environment for the resulting heterogeneity in organizations. Meyer and Rowan (1977) posit that organizations adopt new structural features when the institutional environment defines these features as rational. They clearly demarcate institutional elements of the environment from its technical elements. Scott and Meyer (1983) define technical elements as, "those within which a product or service is exchanged in a market such that organizations are rewarded for effective and efficient control of the work processes", in contrast to institutional environments that, "are characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy."

Scott and Meyer (1983) develop their arguments by examining differences in patterns of decision making within the institutional environment of organizations. They identify three types of decisions: (1) programmatic decisions refer to the right to determine the purposes or goals towards which sector activities are to be directed; (2) instrumental decisions refer to the right to determine the means or methods to be employed in pursuing sector objectives; and (3) funding decisions refer to the right to determine what levels of funds are to be expended and how funds are to be allocated among units within sectors (Meyer and Scott, 1992). Further, they identify three dimensions to capture the variation in the distribution of decision making rights within a sector as: (1) centralization-decentralization of decision making refers levels at which decision are made in a sector; (2) fragmentation-unification refers to the degree to which

decision are integrated at any level within a sector; and (3) federalization-concentration refers to independence of decision making within levels (Meyer and Scott, 1992).

Using the variations in fragmentation of decision making, Scott and Meyer (1983) posit the extent to which the institutional environment will have an effect on organizations.

Similarly, Carroll, Delacroix, and Goodstein (1988) identified the critical issue for isomorphism as the structure of the institutional environment. As the number of the elements of the institutional environment, i.e., the number of organizations in the institutional environment, that can influence the focal organization increase, each element will promote its own interest, propose its own models of organizations, and compete with other elements to have it adopted. The conflicting vertical linkages between the institutional elements and the focal organization influence certain structural characteristics of the focal organization. For example, organizations located in complex and uncertain environments develop more complex internal structures when the consequences of the complexity of work processes are controlled for (Scott & Meyer, 1983). Thus, when organizations exist at national and state levels to stimulate or fund or oversee the performance of certain activities, the focal organizations existing at the local levels become more complex organizationally, reflecting their more complex environments.

Meyer and Scott (1992) reiterate the importance of the varieties of the institutional environment with respect to the organizations. They limit their analysis of the organizational responses to the environment to structural elements of the organization. For example, they emphasize internal structure, decoupling between technical and institutional structures within the organization, and size of the administrative components as certain facets of the focal organization that can vary to match the variation in the institutional environment. Their focus on such internal organizational characteristics could be attributed to the nature of the organizations that they researched. Primarily, these organizations were in the educational or health

sectors. This resulted in ascribing a relatively deterministic role to the institutional environment with respect to the focal organization.

Carroll, Goodstein and Gyenes (1988), used institutional theory, to examine the influences of the Hungarian state on the organizational structure and behavior of the cooperatives. One of the distinctions made in this study was the interpretation of the concept of the "institutional environment". Most previous studies had considered the centralized versions of the institutional environment in their models. The authors in this study identified the various structural components of the institutional environment, in this case, fourteen different state agencies that included village councils, party committees at various levels, national federations, banks, governmental ministries, and other organizations with similar profiles.

In addition, they empirically examined the influence of the fourteen different facets of the institutional environment on production, investment, personnel related issues, and distribution of income to members of these cooperatives and further investigated the relationship between environmental fragmentation and interorganizational linkages among the cooperatives. Fragmentation of the institutional environment was posited as leading to (1) more elaborate interorganizational networks; (2) greater competition among similar organizations; and (3) larger administrative components to deal with the various elements of the environment. They found significant statistical support for interorganizational network existence and competition but contradictory support for the administrative component.

Most main stream strategic HR research (Wright and McMahan, 1992) has been accused of lacking well grounded theoretical perspectives. Institutional and contextual facets have never been accorded due importance in empirical strategic HR research because of the over emphasis on studying internal links (business strategy-HR practices or corporate headquarters' HR and subsidiary HR) within the organization (Harzing and Van Ruysseveldt, 1995). Thus, HRM as field of study within the realm of management

has retained its micro-focus at the cost of "macro" issues associated with the understanding of HRM systems and practices. However, of late, Hannon et al (1995) have made attempts to understand the nature of the two dimensions of multinational HR strategy in terms of global integration and local responsiveness. These authors have operationalized HRM integration in terms of standardization of HRM practices and policies and HRM responsiveness in terms of customization or localization of HRM practices and policies. They have also considered the influence of host institutions on HR strategy. However Prahalad and Doz (1987) have defined integration in terms of centralized decision-making and increased coordination needs and responsiveness in terms of local autonomy. Hannon et al (1995) effectively capture the influences of the pressures for integration and responsiveness on subsidiary HRM practices and policies but overlook the influence of these pressures on the HRM function per se. In addition to influencing the HRM policies and practices in subsidiaries, HR integration and responsiveness are more likely to be reflected in the structural characteristics and the functional activities of HRM. Thus, as Prahalad and Doz (1987) suggest, we should consider pressures for integration and pressures for responsiveness as antecedents to the integration and the responsiveness dimensions of HRM. In this study, I specifically consider the role of the institutional factors like unions, host governments, political parties, etc. in terms of the pressures for responsiveness. The HR responsiveness dimension is operationalized more in terms of the activities necessitated by these pressures. In this approach, I differ slightly from Hannon et al (1995) operationalization of integration and responsiveness, in that, I consider the influence of the institutions on HRM function activities in addition to customization of HRM policies and practices.

In this section, I will review the extant literature from institutional theory, organization theory, sociology of internal labor markets, and strategy that highlight macro-environmental influences on elements of career systems and internal labor

markets. The ILM theorists typically attribute the formation of ILMs to two sets of factors: external and internal. Within the rubric of external factors lie a variety of explanations arising from the "paradigmatic" backgrounds of the scholars (Doeringer and Piore, 1971; Edwards, 1979; Pfeffer and Cohen, 1984; Williamson, 1975).

Typically, labor economists (Doeringer and Piore, 1971) argue that allocation and pricing decisions in the neoclassical economic sense do not explain the attributes of ILMs, to an extent that ILMs are considered to be market imperfections or nonmarket institutions. Institutional economists (Williamson, 1975) argue that the failure of the external labor market due to conditions of opportunism, bounded rationality, small numbers bargaining, and asset specificity lead to the formation of ILMs. Pfeffer and Cohen (1984), in their seminal article on determinants of ILMs have focused on three main perspectives regarding existence of ILMs. First, using economic perspectives, ILMs are said to be responses to retaining specific or general "human capital", in order to get the return on intangible "capital" investment. Scholars supporting this view include Becker (1962, 1975) and Mincer (1974). In contrast to this traditional economic approach, the non-traditional economic approach of transaction cost efficiency focuses on the ILM as an alternative to the external market. External labor markets fail when issues of human assets, performance ambiguity, and goal incongruence becomes salient (Williamson, 1975; Ouchi, 1980). Thus, economic perspectives focus on economic imperatives - either human capital accumulation or transaction cost economizing - as main determinants of ILMs.

The second perspective comes from the radical Marxist school. According to this perspective, ILMs are a capitalist response necessitated by the capitalist's desire for control. Braverman (1974) and Edwards (1979) are among the foremost proponents of this view. ILMs are viewed as control mechanisms that are able to fragment the labor class and at the same time transfer the locus of control to a depersonalized entity. Edwards has expounded on the various control strategies of the capitalists in this



century, highlighting the use of simple "personal" control mechanisms at the start of the century, moving to technological control with the movement from small firms to large business corporations and finally settling into the present mode of bureaucratic control in the forms of rules, regulations, and internal labor markets. Thus, ILMs are deemed as explanations for a form of control employed by the capitalist. Both economic and Marxist perspectives can be easily applied to career systems management.

The third perspective, of more relevance to the present research is the institutional perspective (Doeringer and Piore, 1971). Pfeffer and Cohen (1984) have extended the Doeringer and Piore's (1971) "custom" explanation of ILMs along with Meyer and Rowan's (1977) institutional perspective; ILMs are viewed as "customized" structures that develop out of time bound traditions due to their social legitimacy.

Determinants of ILMs include the existence of personnel departments and unions, size, and labor scarcity. Personnel departments will use ILMs to ensure that normatively sanctioned institutionalized practices are implemented in the organizations. Additionally, ILMs themselves would increase the social legitimacy of the personnel departments. Unions, typically, constrain recruitment practices and other practices like promotions by the nature of collective bargaining agreements. Finally, scarcity of labor and increased organizational size give impetus to ILMs to retain and effectively manage employees.

Doeringer and Piore (1971) contend that while ILMs exist for both managerial and non-managerial employees, the major difference is the significance of "ability" in promotions at the exclusion of "seniority" for managerial employees. As mentioned earlier, they also emphasize the role of "custom"; a workplace essentially begins as a tabula rasa without work rules - once some rules are established, reification of these rules leads to customs. The same is the case with the work environment. From the tabula rasa phase, it moves to a institutionalized phase due to the reification process in the environment. For example, trade unions can codify unwritten customs into

collective bargaining agreements and thus reify them. Additionally, trade unions also provide for organized channels for deliberate change in customary practices.

Freeman (1989) using Hirschman's (1970) exit-voice dichotomy states that with wages and other measures of pecuniary rewards held fixed, trade unionism is associated with significant reductions in exits for non-managerial employees. Thus, unionism is a major force in the creation of a relatively permanent enterprise workforce and a type of market arrangement in which permanent attachments are formed. According to this perspective, unions have a positive effect on productivity, and reduce quit rates. Importantly, union rules limit the scope of arbitrary actions in promotions, layoffs, and recall of individuals. Also, unions fundamentally alter the distribution of power between marginal (junior) and permanent (senior) employees, causing unionized firms to select different compensation packages and personnel practices from those of nonunionized firms.

Sheets and Ting (1988) considered the determination of the employee-termination benefits using organizational theories of ILMs and identified economic and institutional factors that contributed to the development of such policies. They specifically considered the use of transition assistance, severance pay, and advance notification for both salaried and hourly employees. Using the DiMaggio and Powell's (1983) operationalization of institutional isomorphism, ILMs were seen as responses to institutional processes. For example, formal and informal pressures exerted by other organizations in the institutional environment to adopt ILMs would be in the coercive realm. Efforts to adopt industry norms to gain social legitimacy would be considered as a form of mimetic isomorphism. Finally, professional association memberships or normative underpinnings of existing work systems would be categorized as pressures of normative isomorphism. The institutional elements that were considered as important included unions, regulators, government, and competitors. The authors reported that political and institutional pressures for normatively prescribed employment practices

were significant determinants of termination benefits for both sets of employees. The limited literature reviewed here seems to indicate that institutional elements like unions, government, regulators, and competitors do influence characteristics of the ILMs and at the same time influence the employment practices of the employees within the ILMs and this is consistent with Commons' (1950) identification of the role of social institutions (for example, unions, government legislation, the family, social customs) in economic affairs. Commons (1950) argues that while it was not because he rejected the notion of markets or supply and demand, but rather because institutional forces, in his view, were most important in determining labor outcomes. Career systems theorists seem to have developed similar arguments, albeit superficially, for the formation of career systems management and the management of human resource flows.

### **Institutional Theory and Subsidiary Human Resource Management**

The importance of the role of societal institutions has been acknowledged by many scholars of strategy, multinational corporations (MNC), and strategic HRM (Beer et al. , 1984; Murray, 1978; Prahalad and Doz, 1987; Quinn, 1980; Rosenzweig and Singh, 1991; Sundaram and Black, 1992). Prahalad and Doz (1987) have modeled the role of the national governments and unions in influencing multinational strategy. Prahalad and Doz focus on the host government's concerns regarding the influence of MNC subsidiaries on the local competition and also the influence of large integrated subsidiaries on their ability to influence governments. Beer et al. (1984) have recognized the role of government and society in addition to the role of the individual and the organization in studying career systems. Others (Quinn, 1980; Murray, 1978) have focused on the governmental subsystems that constrain organizational strategy and developed the concept of logical incrementalism, under which strategic choice can be construed as a negotiated outcome within the context of the relevant stakeholders.

Besides host governments, unions have been identified as one of the important societal institutions that influences multinational strategy. Scholars (Prahalad and Doz, 1987; Vernon, 1977; Solomon, 1978; Robinson; 1983) have considered different facets of union influence on multinationals. Specifically, Prahalad and Doz (1987) focus on the concerns of labor unions should an MNC close operations in response to changes in the factor cost of labor. The factor that compounds the frustration of the unions is their lack of knowledge of the multinational global optimization criteria, of which only a fraction is disclosed to them, and also the distances between national unions and true decision-makers. Finally national unions are also concerned that the MNC may not fit into the national labor relations framework or that the MNC may make specific efforts to avoid unions.

The role of these institutions for HRM in subsidiaries is as important as their implications for other MNC policies and practices. Governments, unions, and public policy makers are always concerned with the issue: Is the national economy better off than it would be if multinational networks did not exist (Vernon, 1977)? Such concerns arise out of general labor's interest and this results in the rise of institutions that monitor the overall welfare of labor's interest.

As mentioned earlier, European scholars have been more vehement about including institutional aspects of HRM in strategic HRM models because they have been the pioneers in the study of the influence of institutions on HRM due to the contextual and historical aspects of European society in general and European Union integration efforts in particular. However, as most of this research is in its nascent stage, one can find little empirical literature on the issue. For example, Lee (1994) describes the views of human resource managers in five US-owned multinationals, at US headquarters and in the United Kingdom and France, toward the implications of the "Social" dimension resulting from the European integration efforts for the human resource policy and practice in their firms. She suggests that changes in the product-market and labor-

market due to the European Union integration will have a far stronger influence than the social policy directives of the European community.

Other scholars (Gronhaug and Nordhaug, 1992) have articulated specific macro-environmental influences in the international context. Using three facets of these influences: socio-economic, institutional, and cultural, the authors draw implications for HRM and CSM such as recruitment, training and industrial relations. The nature of the differences in the macroenvironment can have a profound influence on multinational activities. For example, the American multinational Toys'R'Us was reluctant to enter into collective bargaining with the union in its Swedish operations (Financial Times, July 24, 1995). Used to operating in a North American environment that is predominantly non-unionized, it tried to replicate its operations overseas. In Sweden, 90 per cent of hourly workers and 80 per cent of salaried workers are unionized, a relatively high percentage compared to the United States. The end result was a strike by the local employees. In addition, the local union enlisted 15 other domestic unions and three foreign unions (in Norway, Denmark, and Germany) in sympathy boycotts of business with the Toys'R'Us stores in Sweden. Toys'R'Us' experience is a clear case of not adapting to local practices and customs due to the inability to appreciate the importance of cultural and institutional environments.

### **Integration-Responsiveness and Subsidiary Human Resource Management**

The integration-responsiveness paradigm has emerged as an important framework for conceptualizing strategy in the international context (Roth and Morrison, 1990). Prahalad and Doz (1987), the foremost proponents of this framework, identified the three imperatives influencing international strategy as: (1) pressures for global operational integration; (2) pressures for local responsiveness; and (3) pressures for strategic coordination.

In this framework, integration refers to the centralized management of geographically dispersed activities on an ongoing basis (Prahalad and Doz, 1987). In strategic terms, the need for integration arises due to nature of factor costs in different geographic locations. Thus, strategic decisions are made with the global organization in mind so as to integrate activities in a manner that reduces costs at the global level. Strategic coordination refers to the central management of resource commitments across national boundaries in pursuit of a strategy (Prahalad and Doz, 1987). While the main pressures for integration are from "cost-reduction" driven factors, the ones for coordination arise from the need for deriving competitive advantage of resource commitments over a long-term horizon.

Finally, according to this framework, local responsiveness refers to resource commitment decisions taken autonomously by a subsidiary in response to primarily local or customer demands (Prahalad and Doz, 1987). The IR grid recognizes the importance of consumers, governments, and unions in influencing local decisions at the subsidiary level. These three building blocks form the basis for understanding the nature of relationships between headquarters and multinational subsidiaries in an international setting. While most of the IR grid has been developed in the context of business unit strategy, Prahalad and Doz have considered cases where functions within a business unit may respond differently to those pressures. For example, in the computer industry, R&D could be an integrated function but marketing could be driven by pressures for local responsiveness. Functions such as R&D, manufacturing, marketing, and services may be used to identify pressures for global integration and the need for local responsiveness, when each function represents a significant commitment of distinct types of resources and different underlying cost structures, and when internal mechanisms exist or can be developed to coordinate the functions that are managed differently.

Roth and Morrison (1990) conducted an empirical analysis of the IR framework. Using the two dimensions, they were able to meaningfully categorize the global organizations into three clusters as predicted by the IR framework. Thus, some global businesses focused more on integration and were categorized under "global integration" strategies. Others were more focused on responding to local conditions and hence were categorized under "responsiveness" strategies. Finally, organizations that were neither globally integrative nor locally responsive were categorized as being "multifocal". This study clearly demonstrated that in order to pursue a global strategy, organizations need not compete globally but be able to maintain a "competitive position through local emphasis on strategic factors like marketing, innovation, and cost control."

Despite the explicit recognition that the IR framework is applicable to a subsidiary's functional activity and identification of "government" and "unions" as important agents of local responsiveness, the IR framework has not been applied to the HR function until recently (Allen, 1991; Hannon et al, 1995). Allen (1991) explicitly considered the role of HR in the globalization of the organization in the context of the IR framework. However, his emphasis is on the role of HR in achieving global coordination and does not consider the IR implications for the HR function per se. Hannon et al (1995) on the other hand had empirically explored the two dimensions of integration and responsiveness with respect to multinational HR and drawn some implications for them based on the resource dependencies of the subsidiary.

Prahalad and Doz (1987) have defined integration in terms of centralized decision-making and increased coordination needs and responsiveness in terms of local autonomy. Hannon et al (1995) effectively capture the influences of the pressures for integration and responsiveness on subsidiary HRM practices and policies but overlook the influence of these pressures on the HRM function per se. In addition to influencing the HRM policies and practices in subsidiaries, HR integration and responsiveness are more likely to be reflected in the structural characteristics and the functional activities of

**HRM. Thus, as Prahalad and Doz (1987) suggest, we should consider pressures for integration and pressures for responsiveness as antecedents to the integration and the responsiveness dimensions of HRM. In this study, we specifically consider the role of the institutional factors like unions, host governments, political parties, etc. in terms of the pressures for responsiveness. The HR responsiveness dimension is operationalized more in terms of the activities necessitated by these pressures. In this approach, I differ from Hannon et al (1995) in the operationalization of integration and responsiveness, in that, we consider the influence of the institutions on HRM functional activities in addition to customization of HRM policies and practices.**



## **CHAPTER III**

### **THEORY**

#### **Theoretical Framework**

This thesis for understanding Multinational HRM is based on the following premises: (1) SIHRM can be understood in terms of the Integration-Responsiveness grid; (2) The choice of the international strategy, whether it be global or multidomestic, is important in influencing HRM integration; (3) Institutional pressures are important determinants of the HRM responsiveness; (4) International strategy and HRM integration will standardize career systems and practices globally, and institutional factors and HRM responsiveness will standardize career systems practices locally; (5) and finally, there will be a differential impact of the independent variables (international strategy, HR integration, HR responsiveness, and institutional factors) on managerial versus non-managerial employees.

For the purpose of the study, I will use the most parsimonious categorization of international strategy. Broadly, using the extant work of Prahalad and Doz (1987), Porter (1986), and Rosenzweig and Singh (1991), international strategy will be categorized in the following two ways: global or multidomestic. While most empirical work in the strategy area has demonstrated the usefulness of this typology, it has rarely been explicitly used in empirical studies in multinational HRM. Schuler et al (1993) have proposed the nature of the multinational strategy will have important ramifications for issues of selection of managers to run the subsidiaries. They argue that the focus on selection of managers in global MNCs will be primarily on recruiting managers who have global concerns and who are willing to follow centralized global initiatives. When selecting managers in multinationals with multidomestic strategies, emphasis will be on recruiting managers who are more adaptive and sensitive to the local environments.

Thus, most strategy classifications use the global-multidomestic typology to mean the following. Global firms tend to use the benefits that can be accrued by the global coordination of manufacturing, research and development, and other functional activities in the value chain of the organization with a view to exploiting economies of scale, economies of scope, and benefits from synergy and distributing the expenses and cost involved over the global organization (Bartlett and Ghoshal, 1995). According to Rosenzweig and Singh (1991), subsidiaries of global firms depend on either the other subsidiaries or the parent to provide managerial support, technology, capital, and key personnel. In addition the subsidiaries depend on intersubsidiary sales and consequently do not sell their outputs in the local markets. As a result they are less susceptible to local pressures as they are less dependent on the host environment.

Multidomestic organizations derive benefits by localizing activities in the value chain due to organizational strategies or the nature of local pressures that warrant loosely coupled multinational networks (Bartlett and Ghoshal, 1991). Subsidiaries tend to be self-sufficient organizations, relying primarily on the local environment for inputs, pricing, and other activities. As they have a higher local resource dependence, they have greater needs for local legitimacy. Thus, they are more likely to adopt features that are appropriate in the local environment.

Thus the implications for subsidiary HRM in these two different multinational forms are different. In case of the global organizations, scholars have recognized the important role of human resource management in fostering globalization (Allen, 1991; Bartlett and Ghoshal, 1995). In the case of multidomestic organizations scholars have recognized the overt need for responsiveness and sensitivity of functional HRM in managing the local environment (Prahalad and Doz, 1987). As a result, the nature of demands made on the HRM function are entirely different in both these cases. In the case of the global organization, HRM managers of the subsidiaries need to have a global mindset in order to understand their critical role in facilitating globalization in their

organizations. Allen (1991) has pointed out that in order to develop this mindset it is imperative that HRM managers in such organizations learn to treat their employees with a resource orientation rather than a cost orientation. Also, HRM managers in subsidiaries are required to be in a position to understand the importance of the subsidiary in the whole scheme of things and articulate an HRM philosophy that is capable of achieving the overall organization's global ends. In order to do so, HRM requires functional integration at the global level. While HRM may be the most responsive function in multinational subsidiaries, HRM integration transforms the mindset of the HR managers from traditional to the global mold. This is very important if HRM is to be an important tool for furthering globalization efforts.

Other issues that have emerged from case studies is the existence of global career patterns and global executive corps used by many global organizations. It is quite difficult to envision such a development without having HRM integration. This not only calls for centralization of the HRM function (i.e., decisions regarding transfers and international assignments need to be made on a global basis) but also tremendous amounts of global coordination in order to effectively utilize executives and managers in different locations.

Multinational organizations that are heavily localized in the subsidiary's national environment lack pressures for HR functional integration. This results from the absence of a globalized mindset. Most functional activities in the value chain of such subsidiaries are heavily localized due to the nature of the local environment and it is not possible to get the benefits of integration due to the diverse nature of activities in the different subsidiaries around the globe, hence reducing the need for integration.

Scholars have so far rarely considered the influence of global strategy on HRM. The globalization literature which calls for a global mindset, globally integrated career paths, global management corps, and other formal and informal global integration mechanisms need functionally integrated HRM in subsidiaries. In sharp contrast,

multidomestic strategies that focus on local responsiveness will not push for HRM integration and HR will have very little coordination with other HR departments in the multinational network.

While global or multidomestic strategy may result in integrative or non-integrative functional HRM, it is clear that the existence of local institutional factors make demands of responsiveness from functional HR. HR has to take into account the policies and practices considered to be legitimate or acceptable to governments, unions, and labor markets. Governments constrain multinational HR indirectly by limiting overall subsidiary strategies and directly by legislating policies and practices of HRM. Most governments have legitimate concerns of MNC exploitation of the country's resources due to past experiences either of their own or of other countries. While this theme is no longer the dominant theme for governmental interference, governments are also aware of the mobility of MNCs and therefore attempt to constrain sudden moves, (for example, shutting down operations and moving to "cheap labor" locations) by creating governmental policies that encourage otherwise.

Thong (1991) studied the foundations of HRM practices of Japanese subsidiaries in Malaysia and found that in most cases the practices conformed in a very rudimentary form to those in the Japanese parent organizations. However, in some instances, he found that retirement age for females was legislated to be 45 years, and hence constrained organizations in implementing similar practices from Japan where similar women employees would retire at sixty years. Thong also mentions that during the period of the "New Economic Policy" in Malaysia, organizations were forced to recruit employees who were categorized as "locals" by the Malaysian government, and in turn constrained organizational recruiting patterns.

Similar macroenvironmental constraints can be found in India, China, and most of the European Union countries. They limit the options available to the organization in terms of hiring, promotion, training, and outflow from the organization. Multinationals

having headquarters in countries with weaker institutional environments have to make more effort in order to be responsive to local macroenvironmental pressures that arise in such countries. This calls for "decentralization" of HRM, so that it is in a position to take into account the local sensitivities of the situations and develop the necessary responsiveness to function effectively.

Unions are another important force in the institutional environment in some countries. Unions can have tremendous influence on organizational policies and practices in most countries having strong institutional environments and socialist overtones in their political governance. Unions are accepted as legitimate institutions that arise in response to the need of labor. Unions have been known to influence hiring, promotions, and exit policy decisions in many multinational subsidiaries. Multinationals often find it more difficult to deal with large federated unions, as in the European Union, having huge memberships and national sympathy. It is often easier to deal with plant level unions, so that concerted efforts to influence overall HR policies and practices can be effectively marginalized. In both cases, that is, with federated national unions and local plant unions, responsiveness of local functional HR becomes imperative.

Finally, the nature of labor markets can influence HR policies and practices. When labor markets of the headquarters bear a strong resemblance to the labor markets in the subsidiaries, other things being equal, it makes more sense to standardize policies and practices. However, in most cases the labor markets of different countries acquire distinctive characteristics due to the nature of educational institutions, historical underpinnings, religion, culture, etc. Under such circumstances, not only are all other things "not equal", but also the very nature of the labor market differ radically from the nature of labor markets in the headquarters country. Thus, in order to implement HR policies and practices, HR needs to be functionally responsive and have a thorough understanding of the local institutional environment.

Until this point we have considered two sets of forces that determine organizational HR adaptation. Broadly one could classify the existence of these two forces in the Hrebiniak and Joyce framework (1985): strategic choice forces that align the HR function and systems in the subsidiaries with the headquarters' HRM, a notion closely allied to the concept of fit (Millman et al., 1991) and contingency theory in strategic HR (Wright and McMahan, 1992) and environmental determinism forces that preclude adaptation in any strategic manner, in a manner suggested by Wholey (1985) and Gronhaug and Nordhaug (1992). Scholars in the past have worked in the either strategic choice or environmental determinism mode, considering one at the expense of the other. While such classifications generally help in understanding the complexities of organizational phenomena, they also detract from the socially constructed "realities" of organizational environments. To determine the potency of one factor at the expense of the other inherently limits the usefulness and potency of such organizational models. Many scholars (Weick, 1979; Hrebiniak and Joyce, 1985) have called to consider both factors, strategic choice and environmental determinism, not only as independent dimensions that can lead to variance in organizational behavior but also recommended the study of the interaction of such dimensions in influencing organizational behavior.

For the purpose of this dissertation, we accept the simultaneous existence of both these forces in the multinational HRM context. Forces of integration, that is, MNC's international strategy, technology, headquarters' need for control and coordination, will be broadly classified under the rubric of strategic choice, while forces of governments, unions, and labor markets, will be subsumed under the environmental determinism dimension.

First, let us consider the influence of strategic choice factors on HRM policies and systems. Most normative literature in strategic HRM suggests that organizations ought to align their HRM strategies with organizational competitive strategy. Most scholars in this area have operationalized organizational strategies using the Miles and

Snow (1978) typology and posited that certain HR systems and policies are more likely to achieve overall organizational objectives than others. Expanding this logic to the international arena, one can posit that MNC's international strategy or international HR strategy should be an important determinant of subsidiary HR strategy and subsidiary HR policies and functions.

Unfortunately, very little empirical work exists in this area. Most of the literature seems to consider the different factors influencing HRM practices in multinational corporations. Martinez and Ricks (1989) found that resource dependencies in terms of knowledge of raw materials, processes, markets, and managerial expertise were important factors in determining the amount of influence that parent companies had over the HR decisions of their subsidiaries in Mexico.

Other studies in this area consider the dual influences of headquarters and local environment (Rosenzweig and Nohria, 1994; Yuen and Kee, 1993; Pil and MacDuffie, 1995). These studies have focused on HR practices like benefits, training, executive bonus, compensation, employee participation, among other HR practices. However, none of these studies explicitly consider the role of HRM, either in terms of the influence of strategic choice on subsidiary HRM or in terms of subsidiary HRM influence on the HR policies and practices in these organizations. Typically, presence or absence of certain forces leads to the adoption of the practices. For example Rosenzweig and Nohria (1994) classify the forces as: (1) parent characteristics; (2) local affiliate characteristics; and (3) expatriate flows. They found that, in general, similarity to local practices were influenced by the subsidiary's founding, local dependence, union, presence of expatriates, and communication flows.

Similarly, Pil and MacDuffie (1995) considered the Japanese and local influences on HRM practices of Japanese transplants in North America. They found that although the critical pillars of the Japanese HR system, that is, life-time employment, enterprise unions, and seniority wage, were not transferred directly to the

transplants in the US, most of their important characteristics were. For example, the Japanese transplants made extensive use of teams in their work processes in deciding on the use of technology, pace of work, selection of team leaders, and ways and means of getting the work done.

Yuen and Kee (1993) explored the influences on HRM policies and practices of subsidiaries of American and Japanese multinationals in Singapore. They found (across 36 HR practices) that the Japanese were more prone to adapt local practices in accordance with the local institutional environment. However, American organizations were more strategically apt to utilize policies and practices that were used back home. The main reason for this difference lay not in organizational characteristics of the firms studied (technology, unions, age, and size) but lay in the nature of personnel strategies adopted by the firms. The American firms tried to standardize their policies and deal with the local subsidiaries using the "labor market" and "union avoidance" models used back at home. There was more emphasis on personnel dispute avoidance strategies and employee developmental strategies so as to replicate the work environment from the US. Yuen and Kee (1993) state that :

*"In America, personnel departments are responsible for administering the contractual relations between employers and workers and over the years, personnel departments have evolved into large legalistic bureaucracies. In the process, personnel practices have become fairly formalized and standardized. This characteristic of the American HRM system had apparently influenced personnel practices of American subsidiaries in Singapore. The personnel practices of American subsidiaries were generally more standardized and formalized than either Japanese subsidiaries or local firms. Even small American companies showed a fairly high level of formalization and standardization.*

*Another indication of headquarters influence is the emphasis which American subsidiaries in Singapore placed on labor market and wage surveys. As the American HRM system is based on a labor-market model, wage and salary levels are determined by labor supply/demand and general economic conditions. Hence, wage and labor market surveys constitute important personnel activities. Apparently, local American subsidiaries also acquired this orientation from their headquarters."*



While the literature considers the role of headquarters influence (Rosenzweig and Nohria, 1994; Yuen and Kee, 1993; Martinez and Ricks, 1989) and the influence of local institutional factors (Rosenzweig and Nohria, 1994) on subsidiary HRM, it neglects the role of these forces on the HRM function and personnel per se. The rationale advanced is that strategic forces from headquarters and institutional forces from the local environment directly influence HR policies and practices and in the process the overall HRM functional role in both the headquarters and subsidiary is overlooked. If practices and systems are to be standardized either to be consistent with the headquarters systems or with the systems in the local environment, the HRM department of the subsidiary needs to be integrated with the headquarters HRM and at the same time given enough room to maneuver in the local environment. Prahalad and Doz (1987) have stated that their Integration-Responsiveness paradigm is applicable to multinational functional activities in addition to understanding the pressures on the business unit strategy formulation globally. Thus, HRM as a multinational function seems to lend itself very meaningfully to the Integration-Responsiveness paradigm. There are certain organizational characteristics that call for integration of HR globally, in order to avail the benefits of HR on a global scale, in a resource based perspective, and at the same time differing national environments and governmental concerns apply the pressures for responsiveness on subsidiary HR. Thus, for HR in subsidiaries, the operational tasks call for both integration and responsiveness simultaneously.

In addition to the influence that international strategy and institutional factors will have on HR function in subsidiaries, they will also influence the HR policies and practices both directly and indirectly through the subsidiary HR function. Most literature seems to lend support to the direct effects. Rosenzweig and Nohria (1994) have considered these direct effects on subsidiary HRM practices in the US. According to their findings, local factors and HR flows from the subsidiary to the parents were important determinants of subsidiary HR practices. Yuen and Kee (1994) conducted a

similar empirical study considering the HRM policies and practices of Singaporean subsidiaries of Japanese and American MNCs. They found that the Japanese MNCs were more prone to adjusting to local trends while the American MNCs showed significant headquarters influence. Both these studies considered the similarities of practices to the HQ or controlled for HQ influences.

Other empirical studies (Pil and MacDuffie, 1995; Banaji and Hensman, 1990) have explicitly considered the differences in policies and practices between manufacturing subsidiaries and MNC organizational manufacturing units in the parent country. Pils and MacDuffie (1995) focused on the three pillars of the Japanese employment system--lifetime employment, enterprise union, and seniority wage--in the Japanese transplants in North America. While they found significant differences between the Japanese practices in Japan and US, that is, most of the traditional pillars of the Japanese HR systems were not duplicated in their entirety, there were significant local adaptations of certain facets of Japanese HR practices in the transplants. For example, most transplants made use of teams to determine microlevel functioning in the organization and training patterns in the transplants were similar to the training patterns observed in Japan. Banaji and Hensman (1990) did a similar in-depth analysis of two multinationals (Unilever and Phillips) and their subsidiaries in India. In contrast to Pils and MacDuffie (1995), they embedded their work in a multinational industrial relations context with an emphasis on historical evolution of context, structures, and strategies over a period of time. They considered differences in bargaining systems, pays and benefits, grading practices, working conditions, and trade union strategies of the two organizations in Europe and India. In their conclusion, Banaji and Hensman (1990) state:

*"Companies which are powerful enough to enforce unified policies in other areas of their business seem to lack the ability to establish terms of employment according to a rational and consistent policy. But this way of dealing with unified labor forces of multinationals as multiplicities of distinct and essentially unrelated labor forces is certainly a conscious policy. Industrial relations is one*

*function international companies deal with in a largely decentralized form, even when like most American companies, they actually believe in, and in some ways perhaps even succeed in enforcing, 'close managerial supervision', over subsidiaries. It is probably true, as Bomers (1976) argued, that American companies in particular feel the need to establish a 'strong influence upon industrial relations' in local plants, but what is at issue here is the form of this influence and whether it is the kind that would lead to greater standardization internationally."*

Using the industrial relations perspective, the authors are critical of MNC strategies concerning collective bargaining and industrial relations. In some sense, they accuse the MNCs of using local institutional isomorphism as an excuse to avoid global integration, and in that sense, creating distinct national labor forces, which are rendered irrelevant in the larger scheme of things due to their inability to dent overall MNC policies. While the conclusion of most of the articles and books considered so far is similar, that is, local institutional factors influence HR practices of subsidiaries, and in turn, standardize practices locally, the rationales advanced depend on the respective perspectives of the authors concerned. However, there seems to be a general consensus that forces of globalization standardize practices while forces of localization result in HR policies and practices bearing strong resemblance to local HR policies and practices.

Finally, most conceptual HR literature has considered HR strategy as an overarching strategy that is consistently applicable to the overall workforce of the organization, either implicitly or explicitly. The empirical literature reviewed so far considers: (1) management or top management (Bartlett and Ghoshal 1988; Martinez and Ricks, 1989; Raghuram, 1992) ; (2) hourly employees (Pil and MacDuffie, 1995; Banaji and Hensman, 1990); and (3) both salaried employees and hourly employees, implicitly (Rosenzweig and Nohria, 1994; Yuen and Kee, 1993) or explicitly (Sheets and Ting, 1988). Empirical work with top management or salaried workers as its exclusive focus seems to be more amenable to the strategic choice models of HR, while empirical work in the other two domains lacks this strategic choice specificity and includes environmental determinism factors. Thus, it seems likely that the two sets of

employees, that is, salaried employees and hourly employees have HR policies and practices that are influenced by the different sets of factors of strategic choice and environmental determinism. For example, top management is more likely to be more influenced by strategic choice factors than say hourly employees. In a similar vein, hourly employees are more likely to be influenced by institutional factors than top management. Thus, both factors in combination are likely to influence the nature of HR policies and practices for different sets of employees. Also, within the factors, different dimensions could have differential impact on the HR policies and practices for the employees. For example, in strong institutional environments, governments and unions are likely to inhibit strategic choice HR for hourly employees but not for salaried employees. However, the nature of external labor markets could strongly impinge on strategic choice HR for salaried employees. Thus, the two factors could have a differential impact on different sets of employees of the subsidiary.

## **Hypotheses**

Scholars have considered the implications of globalization for HRM but very little has been done in examining the influence of the globalization on the functional HRM (that is, the activities and operations of the HR department) of the subsidiaries. Allen (1991) recognizes the role of HRM as a facilitator of globalization. Allen conducted rich in-depth case analysis, probably the first of its kind, in which the specific implications of HR were considered. In fact, Allen stated that the nature of the unidirectional relationships between parent and subsidiaries was replaced by two-way learning and influence due to globalization. Organizations in his study were using both formal and informal mechanisms like global conferences, international get-togethers, global planning and development departments, global coordinating agencies, leadership conferences, individual coordinating roles, and other coordinating mechanisms to assist

the globalization process. Regionalization and regional headquarters at intermediate levels and empowerment of middle managers were becoming common.

HR roles and responsibilities had changed accordingly. In fact all the three organizations in his study felt the constraints of the lack of global competencies in their employees. This resulted in the realization of the importance and the role of HR in fostering globalization. The most important facilitator of globalization was direct international experience, a key to supporting the global mindset.

As the general trend suggests, organizations are in increasing numbers decreasing the use of expatriates due to the cost associated with their assignments, more effective management of subsidiaries by local managers who are more tuned to the local conditions, and due to increased telecommunication and travel activities that render the expatriate's role of the watchdog redundant (Wall Street Journal October 16, 1995).

Most of Bartlett and Ghoshal's work (1988, 1992) in the case study tradition also suggest that globalization has tremendous influence of HR in MNCs. Among other things, they found the existence of global organizational career paths and global executive corps in the organizations that they studied. Also, they focused on the strategic use of transfers and career moves in enhancing effectiveness across functions and across subsidiaries in MNCs. However, the authors, in comparison to Allen (1991) never really focused on the HR function and its role in globalization.

Pucik (1992) has also considered the consequences of globalization for HR functional activities and for HR professionals. After considering the detrimental effects of ethnocentric staffing at the top in subsidiaries, Pucik emphasizes that for effective organizational learning, global career paths, staffing and recruiting patterns, and other HR activities are very important determinants of successful global organizations. Van Houten (1990), describing his personal experience at Phillips seems to suggest that globalization has resulted in different management realities and global career paths and international top management teams have become more common in MNCs. Other

scholars (Evans and Lorange, 1990; Evans, Lank, and Farquhar, 1990) reiterate concepts like global culture, global management corps, international executive development etc. in their work on global HRM.

Rosenzweig and Nohria (1994) in their empirical study on the influences on HR practices also posit that subsidiaries in global industries would have HR practices that resembled those of the parent organization. Thus, it seems natural that globalization has implications for subsidiary HR if the MNC uses career paths across subsidiaries, utilizes global meetings and has international top management teams. Thus, the HR function in the subsidiary is itself subject to be simultaneously globally integrated as well as responsive to local national conditions. Using the Prahalad and Doz IR grid, one can superimpose the dimensions on the HR function and classify the activities of HR in subsidiaries based on the pressures faced by subsidiary HR for integration from the headquarters and pressures for responsiveness from the local national environment.

If MNCs need to develop a global corp of executives and have standardized HR practices, utilize transfers, and coordinate HR activities either at the international or regional basis, then it becomes imperative to integrate HR at the subsidiary level. Thus, the implication of globalization and global strategy for HR are reflected in the pressures for integration of HR. This in turn will be exhibited in both subsidiary HR activities and formal and informal structural characteristics of subsidiary HR. For example, HR managers will themselves have international career paths, will often report to international or regional headquarters for annual or quarterly reviews, and will be exposed to standardized training programs, and use a host of formal and informal communication channels with HR in the headquarters. Thus, global strategy will push HR integration in the positive direction.

However, HR also needs to be functionally responsive in most national environments. In most cases the forces of responsiveness, whether it be through unions, government, regulators, or other relevant stakeholders will influence the

activities and structural characteristics of HR subsidiary functions. While integration would refer to the centralization of decision making about policies and procedural matters as far as HR is concerned, responsiveness would mean the autonomy or local decision making authority granted to HR in order to deal with the controlled variety on HRM, i.e., to deal with matters that are beyond the scope of international HRM or which require knowledge of the local institutional environment and customs. However, as both the pressures exist simultaneously in the case of globalization, HR in subsidiaries will have to deal with competing forces of integration and responsiveness. Imperatives of globalization will increase the pressures of integration and in turn force HR integration in subsidiaries. In contrast, pressures for local responsiveness will influence HR responsiveness, in a manner that is not consistent with global integration efforts.

**Hypothesis 1: MNC's international strategy will be positively related to Human resource integration and negatively related to Human resource responsiveness in subsidiaries.**

The question that arises from the acknowledgment of the institutional environment is: What influence does the institutional environment have on HRM in multinational subsidiaries? Most HR departments act as boundary spanners between the organization and the institutional environment. For example, HR may have to deal extensively with governmental organizations or national unions, and as such may be required to comply extensively with local legislation or acquiesce to socially legitimated practices in the local union environment due to the weight of history or custom. Thus, the HR function has to be responsive to local conditions.

The responsiveness of the subsidiary HR, like HRM integration, will be reflected in the activities and structures of the department. For example, in a strong legal

institutional environment, HR departments will employ lawyers specializing in employment law. In the case of protracted negotiations in collective bargaining agreements, the overall emphasis will be focused on labor relations, and HR will be forced to devote a chunk of its activities to negotiations. Other sources of local pressures include minimum wage agreements, labor laws, unions agreements, public policy documents, and competitor behaviors.

One of the main pressures that leads to HR responsiveness is unions.

Institutional theorists have also considered the functions of the unions. As mentioned earlier, according to Doeringer and Piore (1971) unions perform the following functions: (1) influence both pricing and allocation processes; (2) codify unwritten customs into collective bargaining instruments; and (3) provide organized channels for deliberate change in customary practices. Others (Freeman, 1989; Hirschman, 1970) propose that unions provide voice in the exit-voice dichotomy, by setting collective bargaining agreements. Freeman (1989) argues in addition to providing "voice", unions are also collective and institutionalized responses to organizations, and in general have an positive effect on productivity. However, they also limit the scope of arbitrary actions in recruitment, promotions or lay-offs. At the societal level, unions alter the power balance between permanent and marginal workers causing unionized organizations to select different HRM practices from those of nonunionized organizations.

Unions also determine existence of ILMs and other policies of the organizations. Pfeffer and Cohen (1984) posited that unionized organizations were more likely to have ILMs than nonunionized organizations using Edwards' (1979) argument that agreement between the union and the organization is tantamount to establishing the ILM. Similarly Sheets and Ting (1988) found that existence of termination policies and benefits for hourly workers was significantly dependent on the presence of unions.



Unions force responsiveness on organizations due to their historical antecedents. Using the institutionalization arguments of Granthom and Mackinnon (1994), unions can be considered as institutions that arose in response to pressures and conditions of a particular era. Once in place, such reified entities change very slowly. In fact, over time, unions may evolve to be far from the ideal construed in the by gone era, but in the meantime the expectations of the unions members get adapted to the institution rather than vice versa. Thus, adversarial relations can be institutionalized not purely because of rational reasons like exploitation, but purely because the equilibrium reached at some point in time has persisted and become legitimate. Thus, unions can force responsiveness in order to advance the best interest of their members or due to purely historical antecedents.

In addition to the unions, governments can impose responsiveness on HR (Hills, 1995). Governmental pressure arises on two fronts. In a purely strategic sense, Prahalad and Doz (1987) argue that governments influence organizational business unit strategies in MNC subsidiaries by enacting laws and regulation. This influences HR indirectly. The direct effects of the government can be felt through social policies, labor laws, and other rules that require compliance. Kaufman (1988) has extended Commons' institutional arguments (1950) to highlight the importance of governmental legislation in determining labor outcomes. Thus as the degree of legislation or required compliance increases (Harzing and Van Ruysseveldt, 1995) as is the case in European countries, the HR responsiveness of subsidiaries is influenced. In addition, organizations in industries with strong regulators or other strong market presence from the government, influences organizations' responsiveness to its local environment.

Hills (1995) suggested that governments influences how HR can develop, allocate, utilize, and maintain employees. For example, governments can provide for statutory obligations for organizations to invest in personnel training, a developmental activity. In France organizations are required to invest 1.5% in payroll costs on

personnel training while in Germany the HR departments are required to comply with the following federal statutes: Vocational Education Act, Act on the Advancement of Employment, and the Action on Correspondence Courses. In contrast the US government has no formal requirement for training and developing employees. Such developmental legislation on part of the government constrains subsidiary HR.

As far as allocation activities go, Hills (1995) elaborates on government-imposed hiring quotas and compensation practices for various race and gender groups.

Governments may also set affirmative action guidelines for selecting, compensating, and promoting employees. Such regulations tend to differ according to the subsidiary's nationality and form a strong element of the institutional environment. Governments may also influence HR utilization activities by providing guidance on industrial restructuring and constrain labor force adjustments by prohibiting layoffs or terminations. Finally, with respect to maintenance activities, governments legislate minimum wages, social insurance, safety, workmen's compensation, and termination benefits.

Political parties can form important elements of the institutional environment. Political parties set objective quotas in hiring as was the case in the "Bhumiputra" policy of the Malaysian political parties in the mid-seventies in which they endorsed the employment of local Malays over Malaysian citizens of Chinese and Indian origins.

Competitors can also influence HR practices in subsidiaries. Consistent with the institutional perspective and the processes of mimetic isomorphism therein, MNC subsidiaries are likely to mimic successful adaptation of practices by local MNC competitors (Rosenzweig and Nohria, 1994). Finally labor market characteristics can also influence HR. For example the external labor markets of most MNC subsidiaries are unlikely to resemble those of their parents back home. This will be reflected in the educational institutions, local competitors, and other structural characteristics of these

markets. Hence subsidiary HR will have to realign practices and policies so as to be consistent with the demand and supply conditions of the local external labor markets.

Different sets of institutional elements have influences on different sets of employees in the subsidiaries. For example, unions, political parties, and governmental regulations have a direct influence on compensation and career systems of hourly employees but have very little influence on salaried employees. In the case of the salaried employees the competitors might form the most important element of the institutional environment.

Given the nature of the institutional environment and the role of HR as a boundary spanner, it is clear that the more demands that the institutional environment makes on subsidiary HR, the more functionally responsive the subsidiary HR has to be. Thus, one would expect the influence of the institutional environment to be positively related to HR responsiveness and at the same time constrain HR integration due to the noncompliance of the results of the integration with the socially legitimated rules and practices of the institutional environment.

**Hypothesis 2: The influence of institutional factors for both salaried and hourly employees will positively related to Human resource responsiveness and negatively related to Human resource integration in subsidiaries.**

Finally, most conceptual HR literature has considered HR strategy as an overarching guide that is consistently applicable to the overall workforce of the organization, either implicitly or explicitly. The empirical literature reviewed so far considers: (1) management or top management (Bartlett and Ghoshal, 1988, 1989; Martinez and Ricks, 1989; Raghuram, 1992) ; (2) hourly employees (Pil and MacDuffie, 1995; Banaji and Hensman, 1990); and (3) both salaried employees and

hourly employees, implicitly (Rosenzweig and Nohria, 1994; Yuen and Kee, 1993) or explicitly (Sheets and Ting, 1988). Empirical work with top management or salaried workers as its exclusive focus seems to be more amenable to the strategic choice models of HR, while empirical work in the other two domains lacks this strategic choice specificity and includes environmental determinism factors. Thus, it seems likely that the two sets of employees, that is, salaried employees and hourly employees, have HR policies and practices that are influenced by different sets of factors of strategic choice and environmental determinism. For example, top management is more likely to be more influenced by strategic choice factors than say hourly employees. In a similar vein, hourly employees are more likely to be influenced by institutional factors than top management. Thus, both factors in combination are likely to influence the nature of HR policies and practices for different sets of employees. Also, within the factors, different dimensions could have differential impact on the HR policies and practices for the employees. For example, in a strong institutional environments, governments and unions are likely to inhibit strategic choice HR for hourly employees but not for salaried employees. However, the nature of external labor markets could strongly impinge on strategic choice HR for salaried employees. Thus, the two factors could have a differential impact on different sets of employees of the subsidiary.

First let us consider the influence of HR integration and responsiveness on career systems of salaried and hourly employees of MNC subsidiaries. As integration is posited to be a result of global strategy and dictated by the necessities of globalization, it will standardize the career systems. As global strategy calls for the development of international management corps and transfers of employees across the multinational network, pressures of HR integration will tend to standardize CSM policies and practices globally.

HR integration also results from centralization of decision making in the multinational HRM function. Thus, global and regional meetings and other HR

coordinating mechanisms tend to generate forces of coercive, mimetic, and normative isomorphism between the headquarters and the subsidiary resulting in standardization of HR systems and policies. While increased integration will be positively related to the similarity of the CSM to the headquarters' career systems, HR responsiveness will exert pressures in the opposite direction when elements of the institutional environment like unions, or the government are dominant, then the organizational practices that are congruent with the socially created legitimacy of the unions or government will be adopted by the organizations.

**Hypothesis 3: Resemblance to HQ career systems policies and practices will be positively related to Human resource integration and negatively related to Human resource responsiveness for salaried and hourly employees.**

**Hypothesis 4: Resemblance to HQ career systems policies and practices will be negatively related to the influence of institutional factors for salaried and hourly employees.**

## **Summary of Hypotheses**

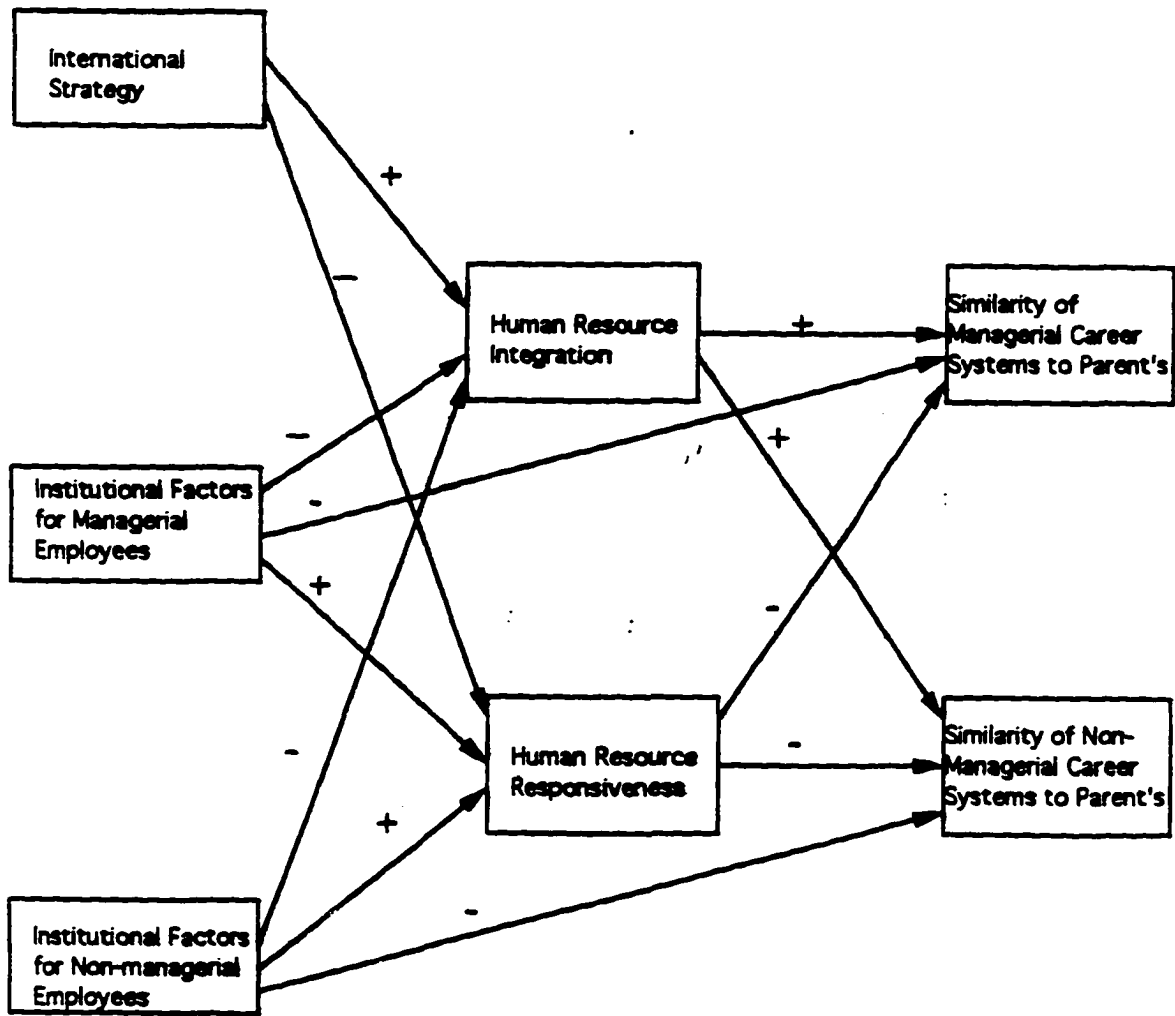
**Hypothesis 1: MNC's international strategy will be positively related to Human resource integration and negatively related to Human resource responsiveness in subsidiaries.**

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**FIGURE 1**  
**THEORETICAL MODEL**



## CHAPTER IV

### RESEARCH CONTEXT

#### **Historical Evolution of the Context**

*"The economic restructuring of the developing world is characterized by international financial institutions as a process necessary for economic efficiency in an area of the world prone to economic irrationality. The height of irrationality, neoliberal orthodoxy argues, is the excessively protective industrial relations systems found in much of the developing world. Government interventions in the labor market segment the labor force into a small, overpaid, and excessively protected labor aristocracy and a large, politically disempowered, informal labor force. Further, the neoliberal argument continues, such labor market interventions cause unemployment and retard economic growth. If neoliberal economists were to map irrationality in industrial relations, its geographical center would likely be South Asia, where domestic industrialists, human resource managers, and now foreign investors complain that labor law restricts management's ability to retrench labor or to dismiss poorly performing workers (Candland, 1996)."*

In light of the above statement, this section gives an historical overview of the HRM institutional context within India. By reviewing the Indian labor history from 1880 to the present, one can clearly see specific institutions like the legal system, the unions, and the political parties have all interacted to create today's Indian HRM environment. Most of these elements of the institutional environment have, in their evolved form, retained their importance and continue to influence subsidiary HR in many ways.

Up to 1880, most of the dealings with labor were on a piece-meal basis. For example, the first documented strike (Blue Mutiny) in Indian industry was in response to the exploitation and cruel mistreatment of "coolie" labor by British management in 1859-60. In response to this strike, the British government created the first institution - the Indigo Commission - that explicitly considered the grievances of the strikers and its investigations supported the Indian peasants' claims and demands.



The industrial growth in the latter half of the last century made the deplorable conditions of labor noticeable and gave impetus to the drafting of the first labor statute on the books.

According to Raman Rao:

*"Curiously enough, concern for the welfare of Indian labor had its origins in the British House of Commons, when the Lancashire and Manchester cotton textile interests demanded that some ameliorative legislation be passed to end the conditions of serfdom in such Indian industries as textiles, jute, plantations and mines, where workers worked ceaselessly, without rest, without respite and sometimes without a break in which to eat their food. The Indian trade union movement was born in the aftermath of this agitation. The working conditions in Indian industries were reminiscent of medieval England or Europe."*

The continuous unrest along with the deplorable conditions led to the appointment of the Factory Commission by the Secretary of State for India in 1875 to investigate the conditions of factories in Bombay. Among other things, the commission reported that factory workers had to work 13-14 hours without breaks or holidays and that children of six years of age were made to work. The commission recommended a minimum age for minors, 10 hour-days and a day off each week. Further political agitation resulted in the passing of the Factory Act of 1881. This statute prohibited employment of children below seven years of age, restricted working hours of children under twelve to nine, and weekly off for child labor. However, the 1881 statute was never really strictly enforced and violations occurred from time to time. This led to the appointment of the second Factory Commission in 1884. Local leaders in Bombay had begun organizing by this time. Over 53,000 workers led by Shorabji Shapurji and N. M. Lokhande drew up a charter of demands. Their demands included: weekly rest, a half-hour recess, compensation for disability, and limiting working hours from 6:30 a.m. to sunset, and in-time payment of wages. The second Factory Commission was not able to meet these demands. Similar demands were made to the third Factory

Commission in 1891. The recommendations of the third Factory Commission were in a similar vein and were never strictly enforced.

Increased exploitation and rising pressure from England led to the appointment of the Textile Factory Committee of 1908. Evidence presented before this commission clearly indicated the inhumane working condition in textile factories in Bombay. Workers were being forced to work night and day, for eight days without a break. Women with children were not given a recess for their meals. The recommendations of this committee resulted in the Factory Act of 1911. There were no further changes in the act until the International Labor Conference in Washington, DC.

The Factory Act in its different forms had begun setting normative working standards in large establishments in India. Since its inception, it had brought some semblance of order into the irregular working conditions of the laborers. Thus, most early Indian labor legislation was created due to the external influences from Britain and the initial struggle of the labor movement, which I am about to detail below.

Unions and strikes had been used by labor way back in 1859 but labor unions had not been officially recognized as representatives of the workers. Modern labor unions started to take roots in the early twentieth century. The Amalgamated Society of Indian Railway Servants was formed in 1897; Printers Union of Calcutta in 1905; Bombay Postal Union in 1907; Kamgar Hitavardhak Sabha in 1909 and Social Service League in 1910. These unions typically operated as social service institutions and engaged mainly in welfare work. However, a very important transition took place in the 1920s. The end of WWI had led to a recession, coupled with long working hours, bad housing, and a lack of amenities gave rise to a vehement dissent from the labor class leading to a number of strikes. For example, 150,000 employees of the Bombay cotton textile industry went on strike in 1920. Indian nationalism was gaining ground and labor discontent provided fertile conditions for the incorporation of the unions into legitimate organizations on the vanguard of the freedom movement. Many events

occurred that allowed unions to transform themselves from representatives of the workers to representatives of the common people by being their moral agents in the fight for freedom. To truly understand Indian HRM one needs to understand why this happened. Unions have been traditionally seen as opposing the capitalist, trying to gain benefits for their members in a society entrenched with class conflict. In the US, various attempts have been made by the capitalist to resist labor unions and movements, in the spirit of a free market society (Griffin, Wallace, and Rubin, 1986). Various types of legislation have been used to weaken the union movement, and until protection has been possible due to statutes, unions have never had moral ascendancy in the society at large. The twenties provided the Indian unions with the opportunity to gain this moral ascendancy. This is succinctly stated by Rao (1967):

*"A series of repressive measures like martial law, the Rowlatt Act, and the Jalianwalla Bagh massacre created a deep resentment against Britain and British rule in India. The Hartal (i.e., closure of shops, establishments, and offices as a measure of protest followed by agitation) against the Rowlatt Act in the spring of 1919 brought workers into the forefront of the nationalist agitation. From then on, the course of the Indian labor movement was inextricably linked with the national political movement from which it has never extricated itself."*

Thus, the Indian freedom movement provided enabling conditions for legitimizing unions as political tools for gaining independence. The other important reason for the involvement of labor in the freedom movement was their organization. Unions provided a better leverage in the fight against foreign rule, a fact well understood by the leading freedom fighters. Mahatma Gandhi, Jawaharlal Nehru, Lala Lajpat Rai, Chittaranjan Das, Subhash Chandra Bose, and V. V. Giri, all household names and leading lights of the Indian freedom movement were associated with unions. Mahatma Gandhi's involvement was of a different nature and it added tremendous legitimacy to the union movement (Erickson, 1993) According to Erickson (1993) Mahatma Gandhi was very involved with the Textile Labor Association of Ahmedabad in the 1918 strike. In fact, he experimented with a technique, i.e., fasting, that was later to become a frequently used tool in the freedom movement. One of the largest industrialists of

Ahmedabad, Ambalal Sarabhai, refused to negotiate with the union over bonuses in the recession year of 1918. The workers demanded a 50 per cent increase in wages in lieu of the "plague" bonus that was to be terminated. Incidentally, the union (i.e., the Textile Labor Association - TLA) was under the guidance of his sister, Anusya Sarabhai. Gandhi was closely acquainted with both the Sarabhai family and the labor problem. Gandhi supported the union's demand in principle but suggested a 35 per cent increase instead of 50 per cent. After the dispute was resolved Gandhi continued to be associated with the TLA of Ahmedabad and continued to advocate his trusteeship vision of unions until his death. Most Indians revered Gandhi and his association with unions did wonders to their legitimacy in Indian society.

The 1920s saw the formation of the All-India Trade Union Congress (AITUC) based on the pattern of the British Trade Union Congress. It was structured as a coordinating central union and was considered the main representative of the working class. The AITUC was born out of the efforts of the Indian National Congress with Lala Lajpat Rai as its first president. Subsequently, prominent Indian leaders came to be associated with the AITUC.

In general, the credit of starting the first trade union in India goes to B. P. Wadia at the Buckingham and Carnatic Mills. He formed the Madras Labor Union in 1918. In general the union was formed to better the working conditions, but it had on its agenda another very important issue: racial discrimination by the British bosses. Given the charged nature of the Indian environment in 1918, it is not very difficult to see why such a union would have popular appeal. By 1924 there were over a hundred unions all over the country in many industries. In addition there were 8 trade union federations. However, the union leadership traditionally did not come from the working class. As mentioned earlier, even at the beginning of the union movement, trade union leaders happened to be prominent freedom fighters. As the movement expanded, union leaders<sup>3</sup>

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<sup>3</sup>Social reformers included: Joseph Baptista, S. H. Jhabavala, C. F. Andrews; Political leaders included: Jawaharlal Nehru, Lala Lajpat Rai, Sarojini Naidu, Subhas Chandra Bose, V. V. Giri; Gandhian followers

started coming from the social reform movement and the political movement. Thus, the trade union movement was intermingled with the freedom movement as a matter of historical necessity and not as a conscious attempt on the part of the union movement.

Unions also started gaining power due to the nature of their leadership. Their leadership left them free to deal with worker issues more than having to deal with establishing legitimacy in the eyes of the workers. This encouraged them to strike for issues of working conditions. One of the first successful strikes was the Bombay textile strike in 1919, wherein demands were made to increase wages and reduce work hours. The union was able to obtain an amendment to the Factory Act and reduce their working hours to ten per day.

The need of organized labor to help in the freedom movement, as well as their political involvement, resulted in the implementation of the following resolution at the 1920 Convention of the Indian National Congress:

*"This Congress has its fullest sympathy with the workers in their struggle for securing their legitimate rights through the organization of trade unions, and places on record its condemnation of the brutal policy of treating the lives of Indian workers as of no account under the false pretext of preserving law and order. The Congress is of the opinion that Indian labor should be organized with a view to improving and promoting its well-being and to securing its just rights and also to prevent exploitation (1) of Indian labor; (2) of Indian resources by foreign agencies and that the All-India Congress Committee should appoint a committee to take effective steps on their behalf."*

The next annual convention of the Congress went on record stating:

*"Whereas the Congress is of the opinion that Indian labor should be organized with a view to improve and promote their well-being and to secure their just rights and also prevent exploitation of Indian labor and Indian resources, it is resolved that the Congress, while welcoming the move by the AITUC for organization of Indian labor, hereby appoints the following committee with powers to assist the executive council of the AITUC for the organization of Indian labor, both agricultural and industrial: (1) C. F. Andrews; (2) J. M. Sen Gupta; (3) S. N. Haldar; (4) Swami Dina Nath; (5) Dr. D. J. Sathaye; and (6) M. Chettiar."*

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included: S. R. Vasavada, G. L. Nanda, Sankarlal Banker; Communist leaders like S. A. Dange; socialist leaders like Ram Manohar Lohia and George Fernandes

Increasing legitimacy of the unions and industrial disputes leading to strikes and industrial unrest coupled with post-war recession necessitated legislation that recognized the labor unions. One of the most important pieces of labor legislation, the Trade Union Act of 1926 was passed in the post-war years. Based on the British Trade Union Act of 1906, this act officially recognized unions as legitimate institutions and provided them with indemnity against civil and criminal suits. Thus, to the moral legitimacy of unions (i.e., as agents of the people in the independence movement) and the leadership-based legitimacy of the unions was added the legal legitimacy aspect with respect to both legal recognition and legal protection in the eyes of the law. Thus by the year 1926 the institutional environment of Indian labor had evolved to an identifiable state. It clearly included legal legislation - The Factory Act of 1922, which had evolved from the original act of 1881 and the new Trade Union Act of 1926 - and unions (both at the industry level - the textile industry in Bombay and at a federative level - like the AITUC) and political parties like the Indian National Congress and the Communist Parties of India. Clearly all three elements had influenced each other.

The first major splits in the union movement were based on ideological differences. The Communist Party began to dominate unions in Bombay and were successful in organizing strikes in 1926-27. The British administration banned the Communist Party. The party was reorganized as the PWP. After a successful textile strike in 1928, the communist-oriented union - Mumbai Girmi Kamgar Union - became a dominant union. The communist cadres had also been percolating and influencing various unions and labor organizations all over India. As their influence spread, they acquired major strongholds in Bombay and Calcutta. The AITUC was split on two occasions: first, reformist trade unionists formed the National Trade Union Federation (NTUF) in 1929 and second, the Communist Party aided the forming of the Red Trade Union Congress (RTUC). Both these factions later rejoined the AITUC, but the stage had been set for the fragmentation of the union movement. Another federation was

gathering momentum, in addition to the AITUC. The Indian Federation of Labor was formed in 1941 and had over 400,000 members by 1944. Thus, until 1947, two main federations dominated the Indian labor scene, i.e., the AITUC and IFL.

The Indian National Congress had been participating in the provincial governments and tried to replace the hostility towards unions of the British administration and employers with its paternalistic attitude. It also assisted in legitimizing the representative nature of unions with the passage of the Bombay Industrial Disputes Act of 1938. However, due to the oncoming of World War II, not much progress was made on the legislative front. Thus during the period 1928-1947, union organizations remained unchanged. Unions continued to be affiliated with political parties and further fragmentations of the union movement was just around the corner.

May of 1947 led to the formation of the Indian National Trade Union Congress (INTUC). A large proportion of the membership of the INTUC was directly attributed to the Textile Labor Association merging with the newly formed organization. G. L. Nanda, the first general secretary of the TLA went on record stating the formal Congress viewpoint with respect to labor organization as:

*"the most urgent need of the moment is to speedily bring into being and develop a central organization of labor in the country which will try to secure the highest benefits and the maximum of progress for all categories and classes of labor while preserving a national spirit and outlook, and standards and just conditions in accordance with the principles set out in the statement of the Working Committee dated the 13th August 1946."*

The labor unrest in the aftermath of WWII (recession, independence, inflation, etc.) continued and the Government of India called an Industrial Truce Conference.

*"This conference considers that the increase in industrial production which is so vital to the economy of the country cannot be achieved without the full cooperation between labour and management and the friendly relations between them. The employers must recognize the proper role of labour in industry and the need to secure, for labour, fair wages and working conditions. Labour for*

*its part must give equal recognition to its duty in contributing to the increase in national income without which a permanent rise in general standards of living cannot be achieved. Mutual discussions of all problems common to both and the determination to settle all disputes without recourse to interruption in, or slow down of, production should be the common aims of employers and labour. The system of remuneration to capital as well as labour must be so devised that while protecting the interest of consumers and the primary producers excessive profits should be prevented by suitable measures of taxation and otherwise both will share the product of their common effort after making provision for payment of fair wages to labor, a fair return of capital employed in the industry and reasonable resources for the maintenance and expansion of the undertaking." A few recommendations, as follows, were also made to implement the above objectives:*

*(a) The fullest use should be made of statutory and other machinery for the settlement of industrial disputes in a just and peaceful manner. Where it does not exist, it should be created without delay. Such machinery should, as far as possible, have uniformity throughout India.*

*(b) The establishment of machinery, central, regional and functional, for the study and determination of fair wages and conditions of labour and fair remuneration of capital and methods for the association of labour in all matters concerning industrial production, such as the formation of central, regional and unit production committees.*

*(c) The setting up in each industrial undertaking works committees representing management and duly elected representatives of labour for the settlement of disputes which may arise day-to-day.*

*(d) As a first step towards raising the standards of living of workers, immediate attention should be devoted to the problems of housing of industrial labour, the cost of such housing should be shared in suitable proportions by the government, the employers and labour, with the share of labour being given in the shape of a reasonable rent.*

After independence, the newly formed nation embarked on a plan for drawing up a constitution. In principle, the constitution was considerably influenced by the English, French, Irish, and the American constitutions. In fact, the sentiments of the Industrial Truce Conference were reechoed in the Directive Principles of the State. Three directive principles that aimed at furthering the social goals of the new republic and aiding the development of socialistic work principles were:

*The State shall, within the limits of its economic capacity and development, make effective provisions for right to work.*



*The State shall make provisions for securing just and humane conditions of work and for maternity relief.*

*The State shall endeavor to secure, by suitable legislation or economic organization or in any other way, to all workers, agricultural, industrial, or otherwise, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities.*

Thus, the aim of the new government was to turn a colonial economy into a modern socialist welfare state. This period also saw numerous legislative reforms for labor that were designed to protect the working class from exploitation. These included acts<sup>4</sup> to establish minimum wages, provide workmen's compensation, make payments of bonus from surplus profits, and guard the workers against inflation by linking wages and dearness allowances to a cost of living index. An important development that needs to be highlighted was the change brought about by the provisions in the Industrial Disputes Act.

The Industrial Disputes Act of 1947 while incorporating the wisdom of previous legislations (for example, the Employers and Workmen (Disputes Act) of 1860) reoriented many of the previous statutes in India. It introduced two additional institutions for resolving industrial disputes, namely, works committee consisting of representatives of employers and workmen, and the Industrial Tribunal. The various authorities under the act - (1) Works Committee; (2) Conciliation Officers; (3) Boards of Conciliation; (4) Courts of Inquiry; (5) Labor Courts; (6) Tribunals; (7) National Tribunals; (8) Grievance Settlement Authorities; and (9) Arbitration were both quasi-administrative (the first three) and quasi-judicial in their nature. In the case of the quasi-judicial authorities, the appropriate government (i.e., the state government or the central government) had to refer the dispute to adjudication, once it was approached by an

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<sup>4</sup>Examples of labor legislation include: (1) The Trade Union Act (1926); (2) The Payment of Wages Act (1936); (3) The Industrial Employment Standing Orders Act (1946); (4) The Industrial Disputes Act (1947); (5) The Factories Act (1948) ; (6) The Employees' State Insurance Act (1948); (7) The Employees' Provident Funds Act (1952); (8) The Payment of Gratuity Act (1972); (9) The Payment of Bonus Act (1965)

aggrieved party. According to Saharay (1987), the Indian Government had retained control on terms and conditions of employment because it feared unnecessary strikes and lockouts, irresponsible trade unionism, spread of communist unions, and inflationary pressures.

Many sections of this act had important ramifications for Indian HRM. Section 4 of the act was concerned with changing the conditions of service.

*Section 4: A notice is necessary on the part of the employer when he proposes to effect any changes the conditions of service applicable to any workmen in respect of any matter specified in the Fourth Schedule...*

*(a) Wages, including the period and mode of payment*

*(b) Contribution paid or payable by the employer to any provident fund or pension fund.*

*(c) Compensatory and other allowances.*

*(d) Hours of work and rest intervals.*

*(e) Leave with wages and holidays.*

*(f) Starting, alteration, or discontinuance of shift working otherwise than in accordance with standing orders.*

*(g) Classification by grades.*

*(h) Withdrawal of any customary concession or privilege or change in usage.*

*(i) Introduction of new rules of discipline, or alteration of existing rules otherwise than in accordance with standing orders.*

*(j) Rationalization, standardization, or improvement of plant or technique.*

*(k) Any increase or reduction (other than casual) in the number of persons employed or to be employed in any occupation or process or department or shift not occasioned by circumstances over which the employer has no control.*

In order to change any of the above conditions of service, the management is required to give a notice to the affected workmen and is prevented from unilaterally changing the conditions of service within 21 days. A whole section of this act is devoted to provisions relating to lay-offs, retrenchment, and closure in certain establishments. In essence, the act prohibits lay-offs, retrenchment and closure in most large establishments without the prior permission of the appropriate authorities. The appropriate authority has the right to grant or refuse permissions. For example, in the case of retrenchment, the employers have to do the following: (1) obtain written permission of the necessary authorities; (2) give a three months notice to the concerned

workmen; and (3) pay monetary compensation (15 days' average pay for every year of completed service). Similar requirements exist for closing undertakings.

Prior to independence the union movement had fragmented itself on political and ideological lines. After independence, the national unions never got to forming a unified front. Events in the national mainstream of politics precluded such a union. The Congress (INC) which was on the vanguard of the freedom movement had created a strong union organization in the form of the Indian National Trade Union Congress (INTUC). The communist parties and their various factions had the All India Trade Union Congress as a communist workers organization. Similarly, all political parties that professed different ideologies created their own ideological workers organizations. While the union movement had become intertwined with the freedom movement, it became obvious after independence, that it was rather impossible to separate the two. The formation of INTUC by the leading political party and subsequent party guidelines for the behavior of INTUC set the stage for political trade unionism in India. Prime Minister Nehru, in 1953, stated:

*"Technically the INTUC and the Indian national Congress are two separate organizations...Still it goes without saying that the INTUC has been sponsored and nursed mostly by Congressmen and derives its strength from the moral and other support of the Congress. As such it is imperative that in political matters all Congressmen working in the INTUC should treat the Congress as the supreme body and abide by its code of conduct."*

The problem of fragmentation was compounded over the next forty years as parties split and realigned for politically expedient purposes. By 1992, the ten largest central union organizations represented nearly 10 million workers, and each was aligned to a different political party. The relationship between the political party and the unions varied. Typically, leftist unions had stronger relationships with their respective parties. However, unions acquired tremendous influence as 52 parliamentary seats, out of a total of 540 seats in the Lok Sabha, i.e., the lower house of parliament and the most important one, were considered to be strong labor constituencies. Unionists rose to

important positions in the scheme of things. As mentioned earlier, a prominent unionist, V. V. Giri eventually went on to become the President of India in 1969. The Indian communist parties with significant help from the communist unions went on to gain power at the state level in two prominent states, West Bengal and Kerala. Other important leaders - like George Fernandes and Dr. Datta Samat - went on to become members of Parliament, and wielded considerable influence in the Indian political system. In summary according to Candland (1996), political incorporation of the Indian labor movement began during the independence struggle through alliances with political parties, and in the process went on to retain an institutional position for organized labor in Indian politics in the post-independence era.

Thus far, we have historically considered three sources of institutional influence, namely the legal system, the central union organizations, and the government, that influence HRM practices in the Indian context. In the MNC context, all the institutional elements became significant due to the historical nature of their evolution and continue to exert influence on subsidiary HRM. In addition to the above, competition and/or industry practices have become important sources of institutional influence as can be seen from the evolution of MNCs in the Indian context .

### **History of Multinational Business (1947-1996)**

A brief history of multinational business is warranted at this juncture, in order to put HRM in perspective. According to Kumar (1990), three distinct phases can be identified in the evolution of the government policies and attitudes towards multinational businesses. To this, we add a fourth phase beginning in 1990, and continuing ever since.

The phase of liberalization, began with the Industrial Policy Resolution (IPR) of 1948, which recognized the need of foreign investment in order to supplement the shortage of capital, technology, and industrial knowledge in India. One of the stated

goals of the IPR was the regulation of foreign capital and denying majority ownership to foreign interest. The subsequent Foreign Policy Investment Statement made drastic revisions, and though the government preferred that the majority of the firm was locally owned; it was not a rule. Foreign firms were also guaranteed national treatment, and assured of ease of repatriation of profits along with fair compensation in case of nationalization or acquisition. By 1956, a second IPR was on the cards. In this IPR, some sectors of the economy were earmarked exclusively for the public sector organizations, but did not specifically discriminate between domestic private-sector organizations and foreign private-sector organizations. A foreign exchange crisis in 1957 forced the Government to attract more foreign investment, and resulted in many bilateral tax exemption treaties with the United States, Sweden, Denmark, West Germany, and Japan. In addition, concentrated organized efforts were made to attract foreign capital to India by using trade missions and other promotional organizations. The influx of foreign business increased substantially by the mid-sixties.

The outflow of foreign exchange on account of profit repatriation increased, and the government was overtly concerned about the volume of the foreign exchange reserves. This led to the second phase (the restrictive phase (1968-1979)). In this phase, based on the recommendations of the Committee on Foreign Collaboration, regulatory organizations were created to oversee the nature of incoming investment. Based on the volume of the investment, relevant approvals were necessary from the regulatory authorities. In addition to the volume issues, an industrial classification system was created and limits were put on the repatriation of profits.

Further, with the enactment of Foreign Exchange Regulation Act, 1973 (FERA), far reaching changes were sought to be made in the foreign organizations' equity levels. This act necessitated the dilution of foreign equity to a maximum of 40 per cent. Thus, most foreign organizations were made to raise the locally held equity in order to reduce the proportion of the foreign-held equity. Thus, in the restrictive phase, licensing

acquired strong roots in India. Various regulatory bodies were created that oversaw the foreign investment. Based on the industrial classification system, three lists were drawn: (1) industries where foreign collaboration was considered unnecessary; (2) industries where only technical collaboration was permitted; and (3) industries where foreign investment was permitted. A limit of 5 per cent on royalty payments was specified.

Most importantly, FERA required equity dilution on part of the foreign owners. This resulted in two important characteristics of foreign business quite unique to the Indian context. First, it brought about a drastic change in the foreign controlled organizational sector (Kumar 1990). It indigenised foreign industry in India. All foreign corporations were now incorporated under the Indian Companies Act, and were free to expand, diversify, and operate in any field like any local company. It also allowed for control on repatriation of profits. Second, dilution of equity was through increases in the volume of local equity and not through reduction of foreign equity. This resulted in dispersed shareholdings, a situation that was favored by the Indian government with a view to reduce foreign control on the subsidiaries.

The third phase began in the 1980s; it resulted in the gradual opening-up of the economy. The two oil price shocks had made the foreign exchange situation quite precarious. The problem of foreign exchange reserves was compounded by the import substitution policy; export promotion or trade promotion were not given the right support. According to Kumar (1990), part of the blame of the failure of export promotion was the lack of the marketing channels to download products in foreign markets; most of these markets had firmly entrenched multinational businesses along with their marketing channels. The government adopted a three-pronged strategy: first, it emphasized modernization of technology, and liberalized import of capital goods; second, it gradually reduced tariffs, exposing Indian organizations to foreign competitors; and third, set up export processing zones to aid export promotion,

providing special incentives to the foreign organizations. However, even this liberalized economy had many bureaucratic shackles and subsidies kept pouring into the inefficient public sector organizations.

The last phase, of liberalization and deregulation, continues to be in operation. As with phase three, this too was triggered by external events. First, with the disintegration of the Soviet Union, India lost many of its captive markets. Second, the Gulf War triggered another shock that greatly reduced India's foreign exchange reserves to a bare minimum level. A weak economy forced India to rely on the IMF for loans, and this resulted in structural adjustments in the economy at the behest of the IMF.

Ratnam (1996) succinctly states the results of the structural adjustments in the economy. First, industrial licensing was abolished in all but eighteen sectors of the economy that were nationally important, and the government abolished plans for further nationalization. Second, majority equity stakeholding was allowed in 34 industry groups. Third, capital controls were abolished, import-export procedures were simplified, and the rupee was made convertible on the trade account. Finally, public sector deregulation was started in some industries.

Thus, from a host government perspective, the Indian economy was multinational-friendly for the first twenty years after 1947. In the next 12 years, it had a restrictive attitude to foreign business, resulting in nationalization of key industries like oil and petroleum, and departure of multinational giants like Coca Cola and IBM from the Indian soil. This phase was followed by a marginal liberalization of the economy with preexisting regulatory structures like FERA and MRTP. This was followed by the last phase, wherein, the socialist economy was given free-market moorings.

From a multinational perspective, most multinationals that existed in India in the first phase existed due to the nature of their commitments prior to independence. They were trying to satisfy the small captive market in a populated economy. Most organizations had ethnocentric orientations, and the Indian subsidiaries were hardly

integrated into global networks. In phase two, the economy was not doing well; it also had political turbulence. For the first time since independence, India had a non-Congress central government that viewed multinational business with suspicion. Multinationals that saw future potential, or had tremendous sunk costs, chose to dilute their equity as per the regulations of the government; others chose to stop their Indian operations. In phase three, multinational business acquired local characteristics. While 40 per cent of the equity came from the parent, 60 per cent came from the Indian capital market. However, given the nature of governmental regulation, most multinational subsidiaries remained small, and were isolated from the multinational network. By phase four, India had one of the largest middle class segments in the world, approaching 150 to 250 millions according to various estimates. This huge captive market along with the structural adjustments in the economy meant that India could be used as a strategic subsidiary in the multinational network. The attractiveness of the Indian market can be gauged by the expansion activities of the old multinational businesses and the entry of new businesses with huge amounts of foreign direct investment.

It is in this context that we consider the multinational HRM function in India. The fortunes of this function have been influenced by the Indian HRM context, within which it operates, as well as by the multinational context, within which it functions. As mentioned earlier, the broader Indian institutional context has provided the institutional elements like the legal system, the unions, and the political parties and the competitive context, which has been more apparent since the influx of new organizations in the liberalized economy has made competitors as an important institutional element. I will briefly describe the general nature of the multinational HRM and use 8 case studies and several illustrative examples to understand the changing nature of this function.

The HRM function in most multinational subsidiaries in India is headed by a local senior manager reporting to the chief executive officer; typical designations include Director (Personnel), Vice President (Personnel) or General Manager (Personnel). The



main sub-functions are Human Resource Development and Industrial Relations. While Human Resource Development is located at the corporate office, Industrial Relations is located at the different plant locations.

Although not explicitly specified, HRD focuses mainly on the managerial employees and Industrial Relations focuses on the non-managerial employees. HRD executives are involved in recruitment, training & development, career planning, compensation, performance appraisal and other managerial HRM issues. The senior HR executive who heads the function will time and again coordinate HR activities with either the regional or the global headquarters. Middle and junior level executives seldom travel abroad.

Industrial Relations executives are involved in day-to-day labor relations at the plants. Plants may or may not have specific HR executives, in that case the Industrial Relations executives will double up and perform the HR function for the managerial employees. Industrial relations executives assist senior HR managers involved in collective bargaining, are responsible for industrial discipline, administration, welfare and other HR activities.

For the purpose of this dissertation, career systems of interest include recruitment; promotions, training and development, and exit. Recruitment for managers typically includes campus recruitment at the entry level and other forms of recruitment at the non-entry level (direct - using newspapers, business magazines etc., and indirect - using consultants and placement services). For non-managerial employees, there is little recruitment at the non-entry level in old firms.

Promotion systems for managers are fairly institutionalized. Typically promotions are based on "performance" and the "potential" assessments of employees. Subsidiaries use indigenously developed systems or have systems adapted from the headquarters. Non-managerial employees have promotion systems based on seniority.

Performance appraisal of non-managerial employees is not a very serious affair, and as a result, promotion systems, for non-managerial employees are not taken seriously.

The training and development function is acquiring importance in multinational subsidiaries. Most subsidiaries have three types of training programs: (1) training programs for new employees which lasts from 12 to 18 months, and includes classroom and on-the-job training; (2) in-house training programs, both technical and non-technical; (3) external training programs. Finally, exit systems management requires statutory compliance of the various acts and the administration of various in-house schemes.

### **GR1 (INDIA) LTD.**

GR1 (India) Ltd. is a subsidiary of GR1 GMBH of Germany. The subsidiary began operations in India in 1966 and currently has three main manufacturing locations - Thana (Maharashtra), Bokaro (Orissa), and Mangalore (Karnataka). It operates in the following business lines: plastics, leather chemicals, agrochemicals, chemicals, and colors and dispersion. GR1 (India) had a stagnant growth rate in the eighties. In the last five years, i.e., from 1990 to 1995, it has doubled its sales volume from Rs. 996 million to Rs. 2018 million. On the HR front, the organization has recently concluded a new job evaluation using the Hay Group from Singapore. The organization currently has 347 managerial employees and 508 non-managerial employees.

The HRM function is headed by a General Manager. Six managers report to the General Manager - Manager (Administration), Manager (Compensation), Manager (HRD), and 3 Plant Personnel Managers. Due to the slow growth in the last decade, GR1 has stopped campus recruitment of managerial employees. Their last campus visit was in the year 1987. Most recruitment is carried out by the HR department directly using newspaper advertising. As is the case with most German organizations, the main emphasis in GR1 (India) is on technological skills. The current crop of recruits includes

6 engineers and one accountant. The training program is of eighteen months duration wherein each new employee spends 3 months in each division. At the end of the training period, the employees are absorbed in the grade Executive (2nd level) and typically get promoted to the position of Assistant Manager within three years. On an average, managers spend 15 years in the first two grade categories. The performance linked pay system of the organization is identical to the one at the corporate headquarters. Turnover rates have been 7% and 6% for the last two years. Thus, CSM for managers are heavily influenced by German headquarters in principle, while some allowances have been made for local practices as far as the managerial employees are concerned.

For the non-managerial employees, HR has faced many constraints as far as recruitment is concerned at the new plant in Mangalore. In fact, the Plant Personnel Manager was the first employee to be recruited on board for the Mangalore project. Local state government regulations require that 80% of all jobs be reserved for state residents (Kannadigas). Currently, the organization has three local collective bargaining agreements with the three plant level unions. Industrial relations have been cordial, and there has been no industrial strife since 1977. Training efforts have gained vigor due to the ISO 9000 certification process and TQM movement within the organization. Overall, the CSM for non-managerial employees is very locally driven.

The liberalization of the economy seems to have influenced the organization and the unions in two ways. While earlier, salary and wage surveys and adjustments were carried out once in three years, presently, the organization uses the help of Noble and Hewitt, a consultant, in order to make such revisions on an annual basis. Primarily, the arrival of a horde of new multinationals in a market where trained executives are in short supply, has resulted in upward pressures on personnel costs. Second, unions seem to have realized the need of the hour. While earlier (i.e., in the sixties and seventies) they would be entrenched in conflict over retrenchment and outsourcing, currently they do

not vehemently oppose such practices enabling the organization to outsource its Thermocole production to small-scale units in the vicinity.

### **GR2 (INDIA) LTD.**

GR2 (India) Ltd. is a subsidiary of GR2 Marion Roussel Ltd. of Germany. Prior to January of 1996, it was a subsidiary of GR2 GMBH of Germany. On January 1, 1996, the global merger of GR2 GMBH and Marion Roussel was announced, but GR2 (India) Ltd. and Roussel India Ltd. continued to operate as separate entities in India when the concerned personnel heads of both the organizations were interviewed. However, the actual Indian merger was scheduled in the months following the interview.

GR2 (India) Ltd. began operations in India in 1956 as a trading organization in the pharmaceutical business. It was associated with the Indian UB group owned by Mr. Vithal Mallya. Vithal Mallya's successor, Mr. Vijay Mallya was also associated with the organization. GR2 started its manufacturing activities in 1958, and currently has three main plants in the Indian sub-continent. The Indian operations are located in Mulund (Bombay) and Ankleshwar (Gujarat); a small operation exists in Kathmandu (Nepal). GR2 employs a total of 2858 employees of which 630 employees fall in the managerial category while 2228 employees are in the non-managerial category.

The HRM function is headed by a Personnel Director. The main subfunctions in Personnel are: Factory IR and Administration, Personnel/IR (field staff, GR2 Centre, GR2 House), HRD and Compensation, and Training. Each sub-function is headed by a manager, and there are some junior executives who report to the managers.

For its managerial employees, GR2 has extensively developed HRM systems. Campus recruitment is carried out for technical and non-technical employees. Technical graduates are primarily recruited from IIT-Bombay and UDCT-Bombay. Non-technical graduates are recruited from S. P. Jain, N.M., S.I.M. and some other local management

institutes. The firm does not believe in extensive recruitment at the non-entry level; most positions (80%) are filled from within the organization. The firm has made some efforts to infuse new blood in the organization at senior levels in production management.

Training and Development is a very important activity in the organization. It has a large training facility - Regional Training Center - and offers courses for both the local employees of the subsidiary as well employees of other GR2 subsidiaries in South-East Asia.

From 1988, GR2 has devised special exit systems for managerial employees. Prior to 1988, most pension plans provide for fixed compensation based on the last drawn salary. Most senior executives who retired had to take a sustained drop in living standards and often could not afford adequate health care benefits in old age. In response to this situation, GR2 devised an internal pension scheme that afforded better compensation and also provided for health-care benefits for retired executives.

The Personnel Director stated that there was very little influence of the HQ on the managerial HRM. He also added that they conducted annual salary surveys using consultants, and thus kept a track of the compensation systems of their close competitors and regularly updated their systems in order to be competitive in the labor market.

For its non-managerial employees, GR2 has recruited very sparsely in the past few years. The last major wave of recruitment at this level was done when the Ankleshwar plant went into operation. The organization has 3 unions; (1) GR2 Employees' Union; (2) Federation of GR2 Employees' Union and (3) Field Medical Representatives Union. The first union represents workmen from all Bombay-based locations. The second union represents workmen at all other locations other than Bombay. The third union represents field medical representatives all over the country. A recent collective bargaining agreement was stalled for 13 months over some retrenchment and closure activities<sup>5</sup>

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<sup>5</sup>GR2 Employees' Union terminated the subsisting settlement dated November 20, 1991 on 31 January 1993 and served a charter of demands. In response the Management served their charter of demands and after several rounds

As a result of the agreement, the organization had a clearly specified promotion policy for its workers. Some of the salient points of this policy were:

*(b) It is further agreed that in terms of mutually agreed Classification Scheme at Annexure III, the company shall in the month of April, review the performance of the workmen and such workmen as are found to be good at performance, with potential and positive attitude towards job and regular in attendance and also keeping in view the departmental needs, will be promoted to higher grades. Other things being equal, seniority in service will be given due consideration.*

*(e) It is clearly agreed between the parties that the schemes for classification structures at Annexure IIIA, IIIB, and IIIC for the Factory, GR2 House, GR2 Center, and Indore Office respectively, have been adopted with a view to provide opportunities to employees to grow and advance by promotion and to allow the company flexibility of workmen attending to related jobs, as may be required by the exigencies of work from time to time. Promotion in the higher grades, after reclassification of specific jobs, will not be granted automatically and in groups. However, only deserving workmen as mentioned in clause (b) will be considered for upgradation in the month of April every year.*

*(f) It is agreed that when permanent workmen are not available within the department, the company will continue to advertise on the Notice Boards at the establishment covered by this settlement for all vacancies arising in the company. The vacancies so advertised should be in conformity with the job as contained in the classification as at Annexure IIIA, IIIB, and IIIC.*

The organization had 12 grades for its workmen. GR2 also had training programs for its non-managerial employees in both technical and non-technical areas. Finally, the exit policies of the organization were heavily influenced by the regulatory environment. The Provident Fund and Gratuity were calculated based on the respective acts.

Globalization had influenced compensation and turnover in GR2. Compensation structures had faced upward pressures and over a third of the employees of the Finance department had left. The Research and Development department also had a significantly increased turnover. Globalization seemed to have a big impact on the non-managerial workers. While German firms had been traditionally known to have lifetime

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of bilateral negotiations, there was no amicable settlement. This prompted the management to approach the Commissioner of Labor, Bombay, with a request to intervene in the matter and expedite the settlement. After many rounds of preliminary discussions and conciliation proceedings, settlement was finally reached on May 11, 1994.

employment and to have members of unions on their Joint Councils in Germany, the state of the competitors as well as the state of the Indian economy forced the organization to design 3 Voluntary Retirement Schemes (VRS) for three sets of employees: (1) 52 years and above; (2) 45 - 50 years; and (3) less than 45 years. As a result over 700 managerial and non-managerial employees left.

### **SW1 (INDIA) LTD.**

SW1 (India) Ltd. is a subsidiary of SW1 AB of Sweden. SW1 entered the Indian market in recent years through acquisitions of the welding and cutting units of Philips (India) Ltd. in 1988 and British Oxygen (India) Ltd. in 1991. Currently it has six plants (Calcutta(2), Bombay, Madras, Nagpur, and Pune) in India.

The HRM function at SW1 is headed by a Vice President. Plant Personnel Managers at the various plants also report to the Vice President. In addition there are three managers - HR, IR, and Administration, who report to the Vice President. The Vice President reports to the managing Director at the subsidiary and the Human Resource Head at Goteborg, Sweden.

SW1 has an extensive management training program. In 1996, they recruited 50 graduate trainees from leading engineering colleges all over India. Training programs for the new recruits lasts for about 2.5 years. In general, for managerial employees, SW1 seemed to have uniform policies and practices in principle and sufficient local autonomy at the subsidiary level for HRM decisions.

SW1 had to deal with a unique set of non-managerial employees. As it had entered the Indian market through acquisition, it was also saddled with the baggage of employee problems of the unions in the acquired organizations. The acquired Philips unit had a very strong union with "tough postures and rigid attitudes." Thus, the acquired unit had very liberal pay scales due to the strong union, and all union efforts seemed to focus on increased remuneration. On the other hand, the acquired British

Oxygen units had a communist union, headed by the Chief Minister of the State of West Bengal, and also the head of the Communist Party of India (Marxist). While the Chief Minister did not conduct the collective bargaining negotiations personally, one of the leading Members of Parliament was deputed on his behalf. The main emphasis of this union in contrast to the Philip's union was on job security.

SW1 faced a unique problem; while it had different plant unions with different affiliations at different locations; there was a concerted effort on part of the unions to form a all-India federation. While Calcutta and Madras plant unions had strong AITUC affiliations, the Bombay union was affiliated to INTUC. Nagpur, which so far was not unionized, was showing signs of union formation. SW1 was able to thwart this effort and was able to retain plant level unions without a national federation, and thus collectively bargained at the plant level. But on the non-managerial front, they had accumulated deadwood; and it was difficult to get rid of it. As mentioned earlier, the Calcutta units had communist unions; these unions, acting in the spirit of communist comradeship, usually refused to even negotiate on issues that even remotely concerned job security. The West Bengal state government typically would not have assisted the organization under such circumstances. Given the mood of liberalization, and the need to attract foreign direct investment to the state, the government agreed to a VRS and as a result 250 employees were retrenched.

Initially (1991-93), SW1 was not overtly concerned about the competitors or the government as far as its managerial employees were concerned. In their line of business, they had hardly faced any competition. Their two main competitors were Advani Orleikon and a division of L&T which had a tie-up with Lincoln Electric of the US. By 1995, SW1 had to face many consequences due to the governments' liberalization effort. Earlier, it had defined competition narrowly by restricting it to the same industry, it was now becoming imperative to define competition broadly. In addition to foreign banks, local organizations like Godrej and Boyce were offering



competitive salaries. As a result, in 1995, SW1 was forced to substantially increase its compensation by an average of 30 per cent. Further, the engineering staff had to have new competitive structures along with a performance orientation. While the organization had not fared particularly well with the institutional investors, with the new and improved performance management system it was able to make substantial improvements in its credit ratings. The Vice President also noted that he had faced a peculiar problem with respect to his workforce. While earlier they had worked for well-known and extremely reputed multinationals (BOC and Philips), the workforce considered the present job being tantamount to "loss of social status,...name, ...identity,"

Two clauses from the collective bargaining agreement highlight the nature of the legal and union institutional elements in this organization.

*"The company held a series of meetings with the union on 22.11.94, 15.12.94, 27.12.94, 1.2.95, 2.2.95, 14.2.95, 27.2.95, 9.3.95, 20.3.95, 21.3.95, 28.3.95, 11.4.95, 29.4.95, 13.5.95, and 19.5.95 but no settlement could be reached at. The matter was thereafter referred to the Directorate of Labor, Govt. of West Bengal and discussions were held at the tripartite level and finally on 26.7.95 the following settlement has been reached."*

*"The Company wants to relocate office and general staff employed at Oxygen House at present with a view to improving the operational efficiency and reducing unnecessary expenses of almost Rs. 8/9 million per year. The company will submit a detailed reallocation plan to the union. The company has ensured that the same/better office environment will be provided and similar facility will be maintained."*

### **DU1 (INDIA) LTD.**

DU1 (India) Ltd. is one of India's largest multinational organizations and is a subsidiary of DU1 of the Netherlands. DU1 has been in India for the past 66 years and is currently organized along the following divisions: lighting, consumer electronics, plastic/metalware components, industrial/business electronics, and domestic

appliances/personal care products. It employs over 7000 employees. It has 12 operating plants all over India (Pune, Maharashtra, Bombay, Calcutta, and Delhi).

The HRM function is headed by a Director who looks after both HRM and Corporate Policy. The location heads at Pune and Calcutta are responsible for the plant HRM and report directly to the Director. In addition, there are two senior personnel managers, one each at Delhi and Bombay, who report to the Director for the plant HRM at these two locations. Finally, there is a General Manager who looks after the corporate HR function for the 1600 managerial employees. In all, there are 32 managerial employees in HRM and support staff. Thus, the organization has a fairly extensive HR department.

For managerial employees, DU1 has developed local recruitment systems over the years. On the training and development front, the company utilizes the Central Corporate Staff Center in Eindhoven, Netherlands and also develops local programs in India. The organization has also devised a VRS for its managerial employees and so far about 100 managerial employees have left the organization.

The company has not been strongly influenced by the government or competitors in the past because of its historically premium position in the Indian market. As far as competitors are concerned, they benchmark against the various competitors across all their different divisions. Their main competitors in the television segment include BPL, Videocon, and Onida. In the lighting segment they compete with GE. In addition they benchmark against some other organizations like Hindustan Lever and Procter and Gamble.

For non-managerial employees, they have limited opportunities to recruit in recent times, and have been limited to highly skilled employees. The promotions of non-managerial employees are based on the location collective bargaining agreements of the different plants. Non-managerial employees have to attend at least 3 days of training

every year. Finally, a VRS has been instituted as a result of which over 600 non-managerial employees left the organization.

Like many other multinationals, DU1 has a long history of strained management-labor relations. Some specific sore spots have included outsourcing of production jobs, retrenchment, and misuse of company resources by managers. DU1 has maintained a policy of subcontracting non-managerial labor for many years. The union estimated that 60 per cent of annual production has been subcontracted since 1965. A 1980 annual report suggests that in addition to DU1 India's direct production employees, another 34,000 individuals were provided employment due to its outsourcing activities. In response to the company's use of outside employees, DU1 Worker's union once circulated pamphlets which suggested decreased job security and accused managerial employees of corruption.

While most multinational organizations deal with multiple unions at different locations, DU1 has to deal with both plant level unions as well as a national federation of all its unions called the Mahaunion. For example, since 1979, the Mahaunion's agreements covers stipulations for bonus, LTA, HRA, gratuity and provident funds. Other stipulations are negotiated locally. However, DU1 has made some strides in getting managerial demands to be contained within its labor settlements. Phillips is one of the first multinationals to submit a managerial charter of demands to its union as part of the bargaining process. For example, the preamble to Philip's 1981 settlement with its Pune factories stated:

*"WHEREAS the DU1 Employees' Union, Regd. No. 4206 (hereinafter referred to as the 'Union')...submitted a Charter of Demands to the Company vide their letter No. (etc.)...AND WHEREAS the Company submitted their charter of Demands to the DU1 Employees' Union vide their letter No. ..."*

DU1 has continued to press for management-operational flexibility on the shop floor since it submitted its first Charter of Demand. As a result, it endured an 81-day lockout at the Pune plants in 1981 and a 105-day strike at the Bombay plant. To

illustrate the nature of the union's protest, I give a brief of the letter of the union to the factory manager at Bombay.

*"It was mutually agreed that the issue regarding revisions of the manning pattern (in the Olivotto plant) would be sorted out by the parties mutually. [But] management...did not bother to discuss the issue of revision of manning pattern of the Olivotto plant...It appears that the management is very conveniently construing the term cooperation as the union's consent to anything and everything the management proposes...(S.K. Lotikar, DU1 Workers' Union, letter dated 22 May, 1986)."*

As far as promotions for workers are concerned, DU1 has taken aggressive measures to counter union posturing. In 1983, DU1 used the promotion issue to launch a massive attack on the union, dismissing the local leadership and systematically disciplining many of its workers. Finally, while DU1 has held its ground against local unions in general, it has had to deal with the Mahaunion extensively. According to some union leaders, "We never used to come to a settlement for years together, but after the formation of the Mahaunion it was not possible for management to resist in that way because the Mahaunion would pressurize the management to come to a settlement." (Banaji and Hensman, 1990 p. 171).

However, globalization seems to have had an impact on the DU1' HRM in many ways. According to the General Manager:

*"Lately, unions have been influenced by the vulnerability of the new (liberalized) environment. As a reaction to the harsh realities, unions have tended to be more flexible in order to ensure mutual survival. While turnover has not been sufficiently influenced (for both managerial and non managerial workers), the last three years have seen a substantial increase in compensation."*

### **US1 (INDIA) LTD.**

US1 (India) Ltd. is a subsidiary of US1 Company of the United States. US1 entered the Indian market through its global acquisition of Richardson-Vicks, and the subsequent acquisition of Richardson Hindustan Ltd. in India in 1988. US1 operates in three main lines of business: soaps and detergents, personal hygiene; and over-the-

counter pharmaceuticals. Currently it employs over 900 employees and it has a joint venture with the Godrej Soaps Company. It has three plants in operation in India - Hyderabad, Bhopal, and Ponda, Goa. The Ponda, Goa plant belonged to Shulton Inc. prior to Shulton's acquisition by US1. The main plant of the acquired Richardson Hindustan was in Thane, Maharashtra, and has been subsequently closed. All current operations are thus new US1 operations except the one in Ponda, Goa.

The US1 HRM set-up is fairly extensive and employs over 40 employees. The function is headed by a Vice-President who reports to the CEO at the Indian subsidiary and to the Director - HR at the Regional Headquarters in Hong Kong. The main subfunctions in HR include: recruitment, compensation, organizational development, employee relations, and organizational safety and administration.

US1's management of career systems were heavily influenced by the headquarters' as well as the regional headquarters' directives. The head of HR had quarterly meetings with the Director of HR of the Asia-Pacific region. According to the Director of HR, all countries in the Asia-pacific region had standardized management practices. For recruitment, US1 only went to the top engineering and management schools in the respective countries. All possible recruits had to go through the same written examination process, the cut-off scores for which were standardized in the region. In addition, multiple interviews were conducted after the written tests, the procedures for which were highly standardized. US1 rarely, if ever, recruited at the non-entry levels.

Promotion systems of US1 were quite different from most other Indian multinational subsidiaries. While other subsidiaries promoted within the subsidiary, promotions would be infrequent or greatly dependent on expansion within the subsidiary. Very few subsidiaries transferred or promoted managerial personnel to other subsidiaries in other countries. At the most a few technical personnel would be deputed to oversee new projects in developing countries or technical personnel would be

transferred to the headquarters to acquire more technical training. US1 promoted and transferred personnel extensively all over the Asia-Pacific region and even to their headquarters in the United States. The use of personnel in a global manner was evident even in the HR function. The Director of HR in Hong Kong was from the Indian subsidiary; his prior assignment had been in Jakarta, Indonesia. The Director HR of the Chinese operations was from the Indian subsidiary. Additionally, one HR manager from Bombay had been transferred to Cincinnati and another had been transferred to Saudi Arabia. Similarly managerial personnel from the technical, finance, and marketing function had been transferred to subsidiaries in Japan, Philippines, Thailand etc.

The managerial hierarchy in US1 was quite shallow; it had four levels. Managerial training activities were standardized globally across all four levels. As an illustration, HR too had four levels; (1) associate managers and A&Ts; (2) managers; (3) senior managers; and (4) associate directors and above. Training modules were classified under either (1) common competencies and (2) specific competencies. Thus, for a managerial employee to move from level two to level three, the employee had to undergo all common competency modules and some specific competency modules applicable to the employee. Common competency modules for HR managers at level two included: (1) Managing and Coaching; (2) Team Dynamics; and (3) Quality Improvement. Specific competency modules included: (1) Training - Part 2; (2) Compensation; (3) Expatriate Transfers and Compensations; (4) US1 Principles of Employee Relations - Part 2; (5) Policies and Procedures Manual; (6) Plans and Benefits - Part 2; (7) Employee Communication; (8) Diversity; (9) Organization Assessment and Design; (10) Employee Research; and (11) Work Process Change - Part 2. These programs focused on two training aims: (1) people excellence; and (2) organizational excellence and the stated mission and purpose of HRM were as follows:

***HR Mission:*** We ensure that US1 has the people and the organization excellence that deliver increasing business productivity and continually improve consumer, employee, and shareholder value.

***HR Purpose:*** To provide all HR employees in US1 with systematic functional training to achieve an ongoing and consistent mastery of global HR technologies.

About the only HR system that had local influence was the compensation system. As far as compensation went, US1 aimed at being in the top five percent of the market. Thus, it was continually upgrading its compensation systems in India as other newly entered multinationals were constantly "poaching" its employees. The Vice President stated that in recent weeks 6 managers had quit the Bhopal operations and 5 of them had joined a newly entered MNC; it was also rumored that these managers were given a hefty compensation by the new MNC (US1 compensation x 2).

For non-managerial employees, US1 followed many of the HQ strategies. Currently it had a non-unionized working environment but that had not always been the case. For non-managerial employees, US1 had recruitment systems with written testing; they even voluntarily complied with the US EEO and AA guidelines. US1 Thana Plant had been strongly unionized. As has been typical of many multinational companies, US1 tried to do away with the union. However, with one production facility, they did not have much success. New production units were started in weakly industrialized areas and as such lacked unions. With multiple units in place along with the use of outsourcing, and the government's liberalization policy, US1 could replicate its global HR policies for its non-managerial employees. US1 developed a VRS (just like the other multinationals had done before) and was able to close its Thana operations.

### **SS1 LTD.**

SS1 Ltd. is a subsidiary of SS1 of Switzerland. It started its first production facility in India at Bombay in 1952. Prior to that it had a branch office in Bombay since 1921. Currently it employs about 647 managerial employees and 1679 non-managerial employees. It has six divisions - pharmaceuticals, agriculture, dyes and chemicals, PA,

animal health, and vision. It has production plants in Bombay and Goa and a research center in Bombay.

The HRM function is headed by Head - HR. The main subfunctions of HR are recruitment, training and development, employee relations, and personnel compensation and administration. In all the HR function has 13 managerial and 3 non-managerial employees. Each operating facility has its own personnel set-up.

The company is structured along 6 main divisions; the division heads of these divisions as well heads of administrative divisions like HR and finance form the CMC (Core Management Committee). The company has agreed to a global merger with Sandoz, and currently talks are on for fructifying the merger of the two Indian subsidiaries. A major change in the structure of the organization is anticipated.

According to the head of HR, the career management systems for managerial employees were locally developed within the global guidelines. The subsidiary organization structure was not similar to the organization structure in the parent country. In 1995, a major job evaluation had been done and new jobs were defined using the Hays MSL system. The company recruited at all levels and promotion systems for lower-level managers were locally developed. HR had reemphasized the importance of training and development. In 1990, 1991, and 1992 the organization had made a piecemeal effort at training and development. The current head had consolidated the training and development function and given it an important role with a proactive developmental focus. Within a period of two years the training budget had gone from a negligible amount to around Rs. 4 million.

Development of exit systems had become an important HR preoccupation in the early nineties. First, the Bhandup, Bombay plant had to be closed as it was making heavy losses. So important organizational activities like R&D, quality systems etc. had to be transferred to other units necessitating transfer of some personnel and the lay-offs of others. Second, the disintegration of the erstwhile Soviet Union had a very important



impact on the Indian subsidiary; it had to close its operation in the export processing zone (EPZ) at Kandla as the organization lost one of its major markets. According to the head of personnel, SS1 was one of the first organizations to come with a VRS scheme for both managerial and non-managerial employees. Arriving at such schemes involved a lot of soul-searching for the management; it was a major decision and dictated a new philosophy.

The company typically benchmarked against the following organizations: BASF, Pfizer, Hoechst, and Nocil and tried to be in the top third in the pay segment. It had a training center at Baroda, Gujarat. The Head of HR was also certified by SS1 UK for specific training programs and traveled regularly to the UK. The Head of HR reported to the Managing Director and to the Head of HR at global headquarters. Currently, the headquarters HR had presented a global plan to the SS1 world HR forum. According to this plan training programs were to be coordinated at the local, regional, and global level. These programs would focus on core competencies (HR responsibility), self-development (advanced Oracle), functional-development (sales training etc.) and technical development. The programs were structured hierarchically in a pyramid; with Excel 1 level at the base and GMM/SMS at the top. In between were Excel 2, Gemtract, Excel 3, and Furi.

For the non-managerial employees, SS1 had hardly conducted any recruitment in the past few years. However, the collective bargaining agreement regulated the promotion and transfers of non-managerial employees. After 12 years in a particular position, a non-managerial employee had to be promoted according to Annexure C (clauses 22, 23, 25) of the collective bargaining agreement. Training and development systems were practically non-existent at the non-managerial level. However, SS1 seemed to be on the forefront in developing unique exit systems in the Indian context. Most Indian legislation (for example, The Industrial Disputes Act of 1947) makes it impossible to close any operating facility in the country except under circumstances of

"force majeure". Unions, state governments, and political parties affiliated with the unions act as further constraints and complement the legal system. SS1 had to deal with two sets of unions: (1) Dyes and Chemical Workers' Union; and (2) SS1 Field Workers Association, Unit of Dyes and Chemical Workers' Union. Its Bhandup plant had one of the highest paid workforces with abysmal levels of productivity. Expansion at that particular plant was next to impossible because of locational and organizational imperatives. Locationally, there was very little room for expansion. Organizationally, the entrenched union made even simple organizational matters difficult. The management had preliminary discussions with the union and proposed four alternative scenarios to them. First, SS1 offered to let the union run the plant as a worker's cooperative; similar worker's cooperatives were running some old plants in Bombay with the help of the Board for Financial and Industrial Reconstruction (BIFR) (for example, Kamani Tubes). The second alternative that SS1 proposed was the sale of the plant to some local owner; unions did not favor this option as they were not in a position to predict the local owner's behavior. For example, in the event of eventual closure, the union would rather have a multinational severance package than a local severance package. The third alternative was to downsize and run the plant in a severely restrictive manner. Downsizing would be the imperative of management and the union could not be assured "seniority downsizing"; in fact the organization preferred "need" or "ability" downsizing. That is, only employees needed by the organization or high-performing employees would be retained. The union was very uncomfortable with this demand. The final alternative was closure; the unions would be offered a voluntary retirement scheme. If all employees voluntarily accepted to leave the organization, SS1 would be free to close the operations without the consent of the legal system. According to the Head of HR:"

*"Industrial relations in India is heavily influenced by the local environment; particularly by labor legislation and unions. The dynamics of labor management in a particular organization is also influenced by the social conditions*

*(liberalization etc.) of the environment and the financial condition of the organization. We were in a sound financial position, and given the current climate we could offer attractive VRSs and pension schemes (and also making some tax-free provisions). As there was no one working for the plant in October/November 1992, we were not concerned with 10 A (a section of the Industrial Disputes Act) - therefore no risk with the government."*

Globalization or liberalization had strongly influenced the organization. Many HR activities were severely hampered. While "closure" had been made easy, recruitment had suffered. According to the Head of HR, "it is a buyer's market; compensation has gone through the roof." While liberalization had eased the foreign exchange constraints, it was much easier to send employees abroad for training. New competitors were also entering the market (DuPont, Eli Lilly). The Head also noted that with the oncoming of MRPII and BPR, HR will have to make significant changes in its outlook.

### **UK1 (INDIA) LTD.**

UK1 (India) Ltd. is a subsidiary of UK1 PLC of the United Kingdom. UK1 products were introduced on the Indian market in 1902 and the first branch overseas branch office was opened in Bombay in 1919. Prior to independence, the branch office in Bombay had responsibility for China, Japan, Singapore, Malaysia, Burma, the East Indies, Afghanistan, Aden, and Iraq. By 1966, the Indian branch was confined to the Indian operations. Due to the foreign exchange crisis in the sixties, UK1 established its first manufacturing operations in Bombay. By 1972, it had an indigenous top management team. In the eighties, when a lot of multinationals (for example, Coke and IBM) pulled out of India due to FERA, UK1 renamed itself Indrol and continued to operate as an Indian organization. The eighties was a decade of slow but sustained growth and increasing brand recognition. After liberalization, UK1 India became the fastest growing company in the UK1 group, with sales growth touching 30% for the last three years. UK1 has regional offices in Bombay, Delhi, Calcutta, and Madras, six blending plants, and over 950 employees.

The HRM function at UK1 is headed by a General Manager - Human Resources. The subfunctions of HR are not so clear. There are 4 managers who report to the General Manager at the headquarters; in addition the manufacturing units have personnel executives who report to the head of the unit as well the General Manager. For its size, UK1 has an extremely lean and efficient HR set up.

The organization has recently had a major change in its top management. Since then HR has been given an extremely high priority in the organization. To illustrate this change, one needs to consider the training budget of HR. In 1990, Rs. 0.1 million was allotted to HR for training, while in 1996, the figure has risen to Rs. 7.5 million.

For its managerial employees, UK1 gets broad directives from the headquarters, and has sufficient local autonomy to design and implement career management systems. The broad directives are encoded in the "People Management Plan" of UK1 PLC. The General Manager makes routine visits to the Asia Pacific regional headquarters, however, the organization at this juncture does not have regionally integrated career systems. For its managerial employees, it has an internally designed promotion system and a VRS systems for retirement. UK1 benchmarks against foreign multinationals like Levers, Procter &Gamble, Smith Kline Beecham, and local firms like Indian Oil for compensation.

An internal company HR document states:

*"Human Resource Development is given a high priority in the company. An integrated HR plan ensures the optimal utilization of employees with emphasis on continuing training and development. A number of in-house programs are conducted to meet the specific needs of our employees. Executives are also nominated to prestigious external programs in India and abroad. On a regular basis, executives are sent abroad to other UK1 units for field visits or training. UK1's performance appraisal system also focuses on employee development. Career planning of "high-fliers" is done to ensure that a ready pool of talent is available for management succession. In this direction, a 'management trainee' scheme has also been initiated to attract some of the best talent for entry level positions. Job rotation and transfers are an integral part of the UK1 Management Development Program and this could even mean movements across borders. Some Indian managers are serving in UK1 units overseas and the number is likely to increase in the years to come."*

On the non-managerial front, UK1 has local unions at the manufacturing locations. Most of these are internal unions, and have external affiliations. It has encountered a lot of local political pressure for recruitment at its Silvassa plant in Gujarat. However, its units in western India have cordial industrial relations in general. Its blending unit in Calcutta has labor problems, and UK1 has considered relocating to another state.

According to the Economic Times (May 22, 1996):

*"...Worsening law and order situation has gripped UK1's unit in Calcutta ever since the company terminated the services of its security agency and the latter's personnel have been disrupting all movement in and out of the factory resulting in estimated losses to the tune of Rs. 20 million since March 13...Company sources said that the special assistant to the Bengal Chief Minister, Mr. Sujit Poddar, the former chairman of West Bengal Industrial Development Corporation (WBDIC), Mr. Somnath Chatterjee and the police had all been approached...Mr. Quamar, president of UK1 Limited Employees and Workers' Union said that the police had intervened sporadically after the company secured an order from the Calcutta High Court directing the free exit and entry to the factory..... Mr. Rao, however, disputed Mr. Quamar's claim that there was a move to shift out the Calcutta unit, adding that UK1 would pursue the matter at the highest echelons of the Bengal government to ensure smooth production at its Calcutta unit."*

Globalization has had a substantial impact on the HR systems at UK1. One issue that concerns the General Manager is that of poaching. Some of the technical managers have joined ELF and Shell, both are new multinational entrants in the Indian market. Compensation has risen 30-35% per year over the past three years for the managerial employees; non-managerial employees' increase in rate of compensation has been lower. The company has not, up till now, encountered serious turnover problems but is anticipating some turnover as new multinationals swarm into the Indian market.

### **US2 (INDIA) LTD.**

US1 (India) Ltd. is a subsidiary of US1 (USA) and has been in India for the past 40 years. It is a reputed pharmaceutical organization having three manufacturing locations and employs about 1800 employees. Compared to most pharmaceutical

multinationals, US1 (USA) has only a 40% stake, while 60% is held by public investors. US1 (USA) seems indifferent to the Indian market at a time when most pharmaceutical multinationals have raised their equity stakes from 40% to anywhere from 51% to 100%.

The HRM function at US1 is headed by a Personnel Director. The subfunctions in HR include Total Quality Management, Training, Industrial Relations, and Office Administration. Most of these functions are headed by a manager; these managers report to the Personnel Director, who in turn reports to the Managing Director.

For its managerial employees, career systems have been developed over the years and there is hardly any interaction with the global headquarters. According to the Personnel Director, "recruitment systems, training and development systems, and exit systems are all locally developed; and the headquarters has at the most a marginal impact on all these schemes." For its managerial employees, US1 benchmarks against a pool of organizations. 75% of the pool consists of multinational pharmaceuticals and 25% consists of multinational non-pharmaceuticals like Hindustan Levers and Procter & Gamble.

For its non-managerial employees, US1 has hardly recruited in the past few years. An "Enhancement of Quality of Life" program has been in place since 1989, and workers have undergone some training under the aegis of this program. A VRS scheme has been designed for non-managerial employees and so far 250 employees have taken benefit of this scheme. The VRS scheme is a standard scheme following the government guidelines for tax exemption and has been designed by studying schemes of other pharmaceutical organizations.

US1, in the past, has had to deal with the "Indian" problem of the multiplicity of unions. In India, trade union recognition is based not on a secret ballot but on a checkoff system. Typically, trade union leaders make claims about their membership. These claims are then verified by the officials of the government, and based on the

results unions are recognized. Lack of political patronage spells doom for the unions in this system with corruption being rampant; it is impossible for non-politically affiliated unions to survive in the long-run. At the same time, a strong union with a national federation and political entrenchment can spell doom for the organization. According to the Personnel Director, US1 took the bold step of introducing a secret ballot system, a first in the country, in order to eliminate union multiplicity. It was very successful in this effort and as a result it had a strong internal union with no political affiliations.

Globalization had not so far influenced US1 substantially. For managerial employees, it had resulted in increased compensation. It had however not influenced turnover except in the finance department. The collective bargaining agreement of US1 had a preamble; this was a fairly uncommon practice. The preamble stated the guiding principles for industrial relations. Its first clause stated:

*"We are witnessing fast and far reaching changes in the politico-socio-economic sphere all around us. There is an inexorable move towards globalization of our economy. There is an ever-increasing challenge to produce goods/services of highest quality at a competitive cost. Business as usual is no longer a recipe for success. We have to constantly benchmark our norms and standards to improve and excel and stay ahead of the competition.*

*In this process, we take pride that Industrial Relations is attuned to and integrated with the business goals of the company. The Management of US1 limited and the US1 Employees' Union believe that Industrial Relations or Human Relations is a process of dynamic and positive transactions based on mutual trust, respect, and cooperation and not one of dictation. In pursuance to this principle, the Management and the Union have endeavored and shall continue to endeavor to resolve issues through mutual dialogue and a spirit of cooperation. Drawing upon this mutual objective, both the Management and the Union jointly proclaim their policy intentions to work for the good of the Organization and its employees."*

Section 7 of the collective bargaining agreement, in the spirit of the preamble, focused on the changes and improvements relating to increased production and productivity. The management was able to negotiate for freedom to introduce change in work processes and technologies, increase productivity, and flexible deployment of the workforce among other things.

While globalization had influenced many principles of operations in US1, in practice, it had very little influence on the organization. HR had been static for quite some time. Even at the regional level, there were hardly any transfers from US1 to other subsidiaries in the region. HR had not known of any transfers to other subsidiaries.

### Other Examples:

The experiences of other organizations highlight the responsiveness issues and the changing nature of multinational HRM. Hindustan Lever Ltd. is probably considered to be one of the best organizations in India (Far Eastern Economic Review, 1996) and is a regular benchmark for most organizations in India. Despite its success, it has had a chequered industrial relations history. In Hindustan Lever, there is extreme fragmentation of unions. Separate agreements for soaps and detergents plants at Sewree, fine chemical plants at Andheri, the research center next to it, the Taloja factory, and the Bombay head office staff. For example, the Hindustan Lever agreement at the Sewree plant states that 'as a result of modernization or mechanization there will be no retrenchment' (Banaji and Hensman, pg. 30). At the Hindustan Lever factory at Sewree, most of the day-to-day functioning of the union is handled by the local committee, but important issues are handled by Dr. Datta Samant. The cost of living allowance caused problems; charters submitted around 1968 were settled in 1977, through adjudication. Demands made in the late seventies (regarding computerization and automation) were finally adjudicated in 1985 through court settlements. Banaji and Hensman (1990), while noting the power of the Hindustan Lever unions state:

*"A more striking example of strong union control over promotions is Lever's Sewree factory. Here, largely due to the enforcement of a complex set of seniority rules on the shop floor by the union, one of the most powerful private-sector managements in the whole of India has been forced to cede control over a crucial area of personnel. In the Lever factory, seniority operates in two fundamental forms - departmental and gradewise. As between grade and department, priority is applied to the latter; anyone in the department would get a*



*priority over someone in a higher grade from outside the department. The way the system operates forms a powerful obstacle to the movement of workers between departments, and in this sense it is obviously a fetter on management's flexibility in deployment. When a new manager tried to break the system and held interviews for the new jobs, the union told the workers that only the senior ones should apply."*

Hindustan Lever has tried many strategies to reduce the influence of unions. It has repeatedly promoted "workers" to supervisory levels in "management". The unions have strongly resisted this effort and have time and again taken recourse to the courts. Unions have also opposed computerization and outsourcing efforts of the organization. A prolonged strike in 1990 highlighted the union's resistance to such efforts. The unions went on to produce their own bar of soap named "Strike" as a token of their opposition to the management efforts. However, Hindustan Lever has been in a position to deflect union pressure on two accounts. One, it has used the multiplicity of the unions to its advantage. Due to the fragmented nature of its unionized environment, it has been able to manage the different unions constituencies more effectively. Second, it has taken recourse to the slow legal system. Most unions succumb to the pressures of not being able to deliver results fast.

Even in the liberalized economy, Hindustan Lever has had to face strong unions. This is in sharp contrast to most other organizations that we have considered so far. Mergers in the newly liberalized economy have gone fairly smoothly. The following mergers are cases in points: GR2 and Roussel, SS1 and Sandoz, Glaxo and Burroughs Wellcome. Hindustan Lever acquisition of TOMCO has been fraught with problems on the HR front. Hindustan Lever has tried to transfer the former TOMCO employees from the old offices to new facilities in Vashi, New Bombay and Ghaziabad, Haryana. The employees of TOMCO have gone to court and obtained restraining orders for the transfers. According to the employees, these transfers are being used by Hindustan Lever to inconvenience the employees and beat them into accepting VRS schemes.

Another behemoth on the Indian multinational horizon is Bata (India) Ltd., the subsidiary of the Canadian Bata Shoe Corporation. While it is one of the oldest multinational subsidiaries in India; it is also one that is constantly fraught with labor unrest. Bata has not performed too well in the Indian market of late. In order to orchestrate a turn-around the headquarters has recently replaced the top management with a new expatriate staff.

The company has rarely recruited at the managerial level; in fact it has laid-off more than 260 managers in the last 2 years. The Bata union (affiliated to AITUC) has been fairly vociferous in its criticism of the management practices. Bata is trying to reduce the wage component as proportion of sales from 9% to 4%. The union has made it clear to the management that they are in no position to either accept reduced pay or retrenchment. As a result, Bata has even threatened to pull out of India.

Bata, in trying to standardize certain global practices in its India operations, has made certain changes in some of its traditional retailing practices. This has led to understaffing of the retail outlets (according to the union) and changes in working conditions. The new retailing practices (termed RM 80) are currently being practiced by the Bata companies worldwide. This requires replacing the old "third copy cash memo" system and submission of daily sales to a centralized location. Thus, the workload has increased and unions are concerned with the management's decision to not increase manning levels. As a result, the All India Bata Shop Managers' Union has planned a one day token strike on June 5, 1996 in all the 1000 Bata shops scattered all over the country. This strike is meant to coincide with the arrival of Mr. Thomas Bata, chairman of the Canadian parent organization.

Organizations such as US3 and FR1 were on the forefront as far as HR Integration was concerned. US3 had its share of dealing with a intractable internally unionized workforce but was committed to global integration of HR. It frequently transferred managerial employees all over the Asia-Pacific region and HR professionals

frequently traveled abroad. The Area Head of US3 for the West Zone was a member of a newly constituted global task force that was scheduled to meet in the oncoming months in New York; the task force was concerned with global standardization of employment practices within all the branches and subsidiaries of US3. FR1 had dealt with the HRM function in a fairly unique way. Given its small size and the predominance of managerial employees, it was able to outsource the HR function to Arthur Anderson Consulting in Bombay. UK2 was another organization that seemed to have a fair degree of HR integration. It was one of the oldest multinationals in India, with a history supposedly dating back to the 1840s. UK2 transferred employees regularly across the Asia-Pacific region. Its human resource practices resembled the practices of its parent organization to a great degree.

A German engineering consulting firm, GR3, was a good example of an isolated subsidiary. Its HR function was highly responsive to the Indian environment although it lacked a strong non-managerial institutional environment. As it was in the consulting business, most employees had professional engineering degrees and as such it employed very few non-managerial employees. The head of HR was designated as "Senior Manager." The General Manager of the function had retired and no replacement had been sought. HR from the Indian subsidiary had very little contact with HR at the headquarters and had large amounts of local autonomy. The subsidiary had excessive turnover problems due to the very nature of its business. According to the Senior Manager, the trend that they experienced in the organization (i.e., excessive turnover) was fairly symptomatic of most other engineering consulting businesses. According to her, most of their clients were in the engineering, petrochemicals, and the chemical businesses. Thus, most of the engineers developed tremendous expertise in these technical areas and as soon as they had acquired the relevant experience they were attracted by the "big money" compensations from organizations in the oil-rich Middle-Eastern countries or the newly emerging markets of Malaysia or Indonesia. While both

the parent and the subsidiary were cognizant of this problem, no efforts had been made to manage the problem. Thus, the Indian HR function was practically battling with numerous exits and the replacement of these employees on a continuous basis. HR was primarily a recruiting unit and was involved in precious little developmental work. The state of subsidiary HR can be summed in the words of the Senior Manager as follows:

*"I feel that integration (of HRM activities) is not required in UHDE. Localization is required."*

While organizations in general tended to be more responsive in the Indian environment, they had been able to offer strategic responses to these institutional environments. Organizations like UK3, GR4, and FR2 had managed their institutional environments very skillfully. All of them had come with schemes such as VRSs in a manner similar to SS1 and closed down some of their unionized operations. UK3 was the largest and oldest (established in 1938) pharmaceutical multinational in India. It had laid-off over 2000 employees in the last two years. In order to do so, it had communicated with all its employees and placed the various scenarios about its future competitive postures. It had provided a "clear idea" of the "what, why, and how" of the VRSs. According to the General Manager (HRD) the main objective of the VRS was to (1) cut out fat in technical activities; and (2) reduce bureaucracy. Using their own funds from India, the subsidiary was able to effectively meet the objectives of the VRSs and was not involved in any "court case" in doing the same. While UK3 had effectively managed its plant union, it had faced some problems in dealing with the Field Medical Representative Union (FMRA) and as such had taken steps to pass "singular messages" to this union.

FR2, another large multinational pharmaceutical, had managed the institutional environment in a similar manner. The French Government had held 35% of the parent's equity until 1996. Due to the privatization efforts in France, the government was forced

to offer these shares to GR2 AG. GR2, at the same time purchased Marion Dow, and initiated a global restructuring of the organization. In India, at the time of the interviews with Heads of HR at both these organizations, both subsidiaries operated as separate entities but a reorganization was on the horizon. In the newly restructured organization, the head of HRM of GR2 was to look after the HRD function and head of HRM of Roussel was to look after the industrial relations function.

As a precursor to these rationalization efforts, FR2 had implemented VRSs with a view to reducing the number of organizational employees. The union of FR2 was led by a very respectable Bombay union leader Mr. Khanolkar. Thus, with union acquiescence and government backing, FR2 was able to substantially reduce the number of its employees in order to get ready for its restructuring effort. Another subsidiary, GR5, had gone through a similar restructuring. They had reduced their workforce from over 1500 to about 900 employees, and this transition had gone quite smoothly.

The impact of globalization was clearly evident in some of the above-mentioned subsidiaries. Global mergers and acquisition had facilitated the HR integration at the same time the liberalized Indian economy had created enabling conditions for the restructuring required due to these mergers and acquisitions. The merger of GR2 and FR2 is a case in point. Senior HR executives had to frequently travel abroad in order to facilitate the restructuring of the Indian subsidiaries and merge them. The merged subsidiaries would be relatively large organizations and were afforded many opportunities to grow in the liberalized environment. Thus, Indian multinational subsidiaries were becoming important in the global network of their parents. This trend was seen in the merger of SS1 and Sandoz, UK3 and UK4, and the takeover of a British subsidiary by the pharmaceutical arm of GR1.

## **CHAPTER V**

### **METHODOLOGY**

In this chapter, I present the sample characteristics, measures used in the study, and data analyses used to test the hypotheses.

#### **Sample**

Respondents for the study were senior HR managers of multinational subsidiaries in India. A list of subsidiaries was drawn from the following sources: (1) Principal International Businesses, 1996, The World Marketing Directory; (2) Directory of American Firms Operating in Foreign Countries, Vol. 3, 1994; and (3) newspapers and business periodicals such as The Times of India, The Economics Times, Business India, and Business Today. Approximately 370 surveys were addressed and mailed to the "Senior HR Executive" which yielded 80 returned surveys. In addition, 24 interviews were conducted in India with senior HR managers in 20 different subsidiaries in order to enrich interpretation of the statistical analyses. Interviews typically lasted for two hours and ranged from 45 minutes to six hours.

The average age of the subsidiaries was 29 years. The average organization had 2113 employees--336 managerial and 1607 non-managerial employees. Thirty-six subsidiaries (45.6%) were structured as joint ventures while 44 (54.4%) were structured as wholly-owned subsidiaries. Thirty-six of the subsidiaries were headquartered in the US., 40 were headquartered in Europe (the majority in Great Britain and Germany), and 4 in Japan.

## **Measures**

All the constructs were assessed on a 7-point Likert format such that a high score reflects a high level of the focal construct. While Human resource integration and Human resource responsiveness were specifically developed for this study, all the other constructs were adapted from the literature and modified for this research.

Northrop (1959) coined the term epistemic correlation to refer to the relationship between a construct's conceptual definition and its operationalization or measurement. Both Human resource integration and Human resource responsiveness concepts were based on the work of Prahalad and Doz (1987) and had been used by Hannon et al. (1995) in context of multinational HRM. According to Prahalad and Doz (1987) integration referred to centralized management of geographically dispersed activities on an ongoing basis and responsiveness referred to autonomy granted to the subsidiary in response to local demands. As mentioned earlier Hannon et al. (1995) had effectively captured the influences of integration and responsiveness on subsidiary HRM policies and practices. Their items captured the similarity of six HRM systems from the subsidiary to those of the corporate headquarters but did not explicitly measure the concepts of integration and responsiveness referred to by Prahalad and Doz (1987).

In this study, I constructed items for both the constructs that I believe reflect the functional and structural integration and responsiveness of subsidiary HRM in the multinational network based on (1) literature in the integration-responsiveness area; (2) cases described by Allen (1991) and (3) preliminary interviews with 8 senior HRM executives at Chinese and Indian multinational subsidiaries. Using multiple sources for item generation and the input of senior HR executives helped to build in validity in the construct development process. For example, the operational measure of Human resource integration included items describing the extent of occurrence of HRM activities in the subsidiary such as: coordination of decisions based on an international HRM master plan, transfer of HRM managers between different international locations, participation in

international meetings and conferences, use of international HRM information systems, standardization of HRM training, standardization of HRM policy manuals, standardization of HRM departmental structures, standardization of HRM policies and practices, and personal contact between HRM managers at different international locations. Operational measures of Human resource responsiveness included items tapping into subsidiary HRM activities such as: decision making at subsidiary level, dealing with local government authorities, dealing with local unions, participation in local professional associations, and involvement in local litigation.

This was done to improve the epistemic correlations as the items reduced the potential for deficiency by improving on the variability in the constructs not captured by the previous measures of these constructs while reducing the variability in the measure not reflected in the constructs. Thus, the new measures aimed to capture the essence of the two concepts as defined by Prahalad and Doz (1987) and at the same time reduced contamination by developing a narrower measure to focus precisely on the concepts. Additionally, as most items in the two measures focused on specific activities within multinational HRM, it was unlikely that the respondent would give socially desirable responses. For example, in case of Human resource integration, items such as (3) transfer of HR managers between different international locations and (6) use of international HR information systems are unlikely to yield socially desirable responses. Similarly in the case of Human resource responsiveness, items such as (5) HR deals extensively with local government authorities and (6) HR deals extensively with local unions do not have commonly accepted desired responses. All the other scales were modified from the literature to suit the research context. Finally, 24 interviews conducted in the 20 subsidiaries helped me to add to the validity of the constructs and be reasonably confident of their measurement. Refer to appendix A for the items.



**International strategy.** Multinational's international strategy ( $\alpha = .81$ ) was measured using Roth, Schweiger, and Morrison's (1991) 5-item scale. A low score on this scale suggests that the corporate parent's strategy is of a multidomestic nature, whereas a high score suggests a more globalized strategy (see Porter's classification). Based on exploratory and confirmatory factor analyses (see Table 2 for the results of confirmatory factor analyses), four items were retained (items 1,2,3,and 5), yielding an alpha of .83.

**Human resource integration.** Human resource integration ( $\alpha = .92$ ) was measured using a 13 item scale developed for the study. This scale measures the coordination of human resource activities between the parent and its subsidiaries such that high scores represent higher levels of integration and coordination. Based on exploratory and confirmatory factor analysis, a nine item version was retained (items 1,2,3,4,5,6,7,8,and 10) ( $\alpha = .95$ )

**Human resource responsiveness.** Human resource responsiveness ( $\alpha = .69$ ) was measured using a nine item scale developed for this study. Based on the initial analysis, five items (1, 5,6,8 and 9) were retained ( $\alpha = .73$ ) This scale measures the extent to which subsidiary human resource activities are affected by local constituents like unions, governments, personnel associations, etc. A high score on this scale indicates that subsidiary human resources practice is greatly influenced by local environmental constituents whereas a low scores indicates minimal influence.

**Institutional factors for managers and institutional factors for workers.** Institutional factors for managers and for workers were measured using identical 8-item scales adapted from Carroll, Goodstein, and Gyenes (1988). Institutional elements include unions, political parties, and governments at the local, state, and national levels. In addition the influence of the legal system and competitors was considered. These scales were not treated as conventional scales. Carroll et al (1988) had used a similar scale to investigate the extent of institutional influence on agricultural cooperatives in

Hungary. Using fourteen institutional elements (local parties, governments etc.), they added across the entire scale and used this total as a proxy for institutional influence. Running an exploratory or confirmatory factor analysis did not make sense because each item of this scale represents a different institutional element and there was no theoretical reason for similar responses across the institutional elements. However, if multiple items had been used for gauging the institutional influence of each element (for example, four items to capture the influence of local unions and four items to capture the influence of the local government) then it would have been appropriate to run confirmatory factor analyses on the subscales. In the present context, the variation of institutional influence depended on the location, contextual history of the organization in its local environment, and nature of the industry. Thus, an high score on this scale was interpreted as high level of external influence on the subsidiary's human resource policies and practices.

**Similarity of career systems to headquarters' career systems.** Similar to the institutional scales, two separate scales were created for assessing managerial employees ( $\alpha = .86$ ) and non-managerial employees ( $\alpha = .86$ ). Specifically, executives were asked to assess the similarity of the subsidiary's career systems (i.e., recruitment, promotion, training and development, and exit policies) to that of the parent company's. High scores on this scale reflect greater similarity of the subsidiary's HR policy and practice to those of the headquarters. For similarity of managerial career systems to those of the headquarter's, items 2a, 5a, 8a, 11a, and 14a were used and for similarity of non-managerial career systems to those of the headquarter's, items 2b, 5b, 8b, 11b, and 14b were used.

## **Analyses**

I analyzed a structural equation model using LISREL 6 in order to test the propositions (Joreskog and Sorbom, 1989). I followed the scale development paradigm proposed by Gerbing and Anderson (1988). First I had to establish internal consistency

of the scales being used, and then establish external consistency. Internal validity was established through Exploratory factor analysis (EFA) followed by Confirmatory factor analysis (CFA). External validity was assessed by fitting a path model and establishing nomological validity.

Exploratory factor analysis (EFA) was used in order to see the dimensionality of the constructs under investigation. All items of all scales were used in the initial analysis for the initial principal components factor analysis with varimax rotation. The results obtained from the initial analysis were used input for confirmatory factor analysis (CFA) and refined by means of maximum likelihood estimation (MLE). These two analyses were necessary to establish the convergent validity for the constructs and their reliabilities. As a final step to establishing internal validity I established discriminant validity between constructs under investigation. In addition, I followed Bagozzi and Yi (1988) to show that the average variance extracted by each construct was greater than the squared structural links between the scales.

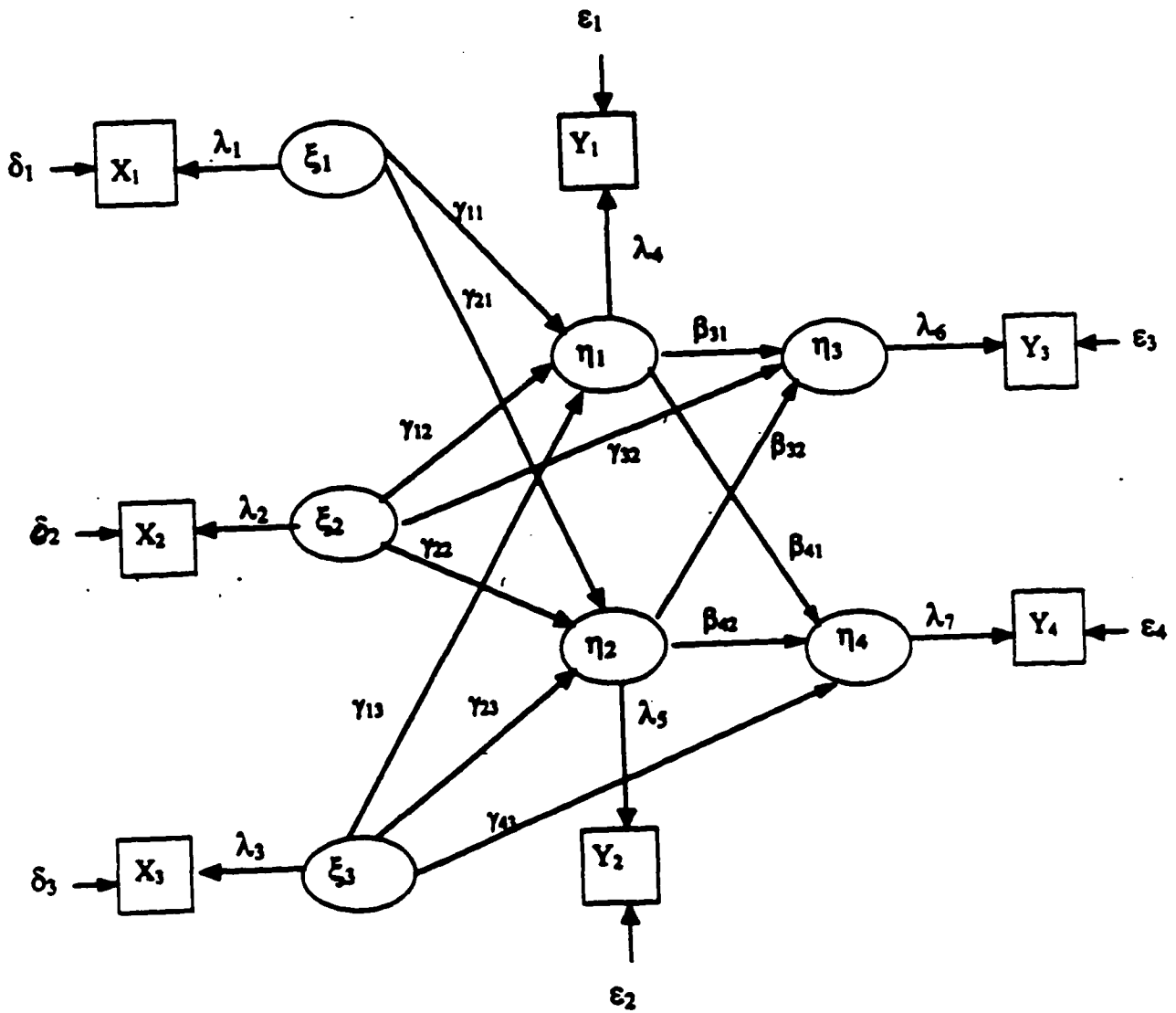
Finally, in order to test the hypotheses, I had to deal with two main issues: (1) determination of the type of structural model to be used and (2) the assessment criteria to be considered with respect to the path model. Given the limitation of my sample size ( $n=80$ ), I had to identify a parsimonious way of estimating my structural model. In order to do so I had to minimize the number of parameters to be estimated and also use scale scores as indicators rather than individual items as indicators for the latent variables.

The reasons for choosing scale score as indicators over raw items was two-fold. First, I had 44 manifest indicators and this resulted in some computational limitations. Second, I also had to deal with the parameter to sample size ratio which is an important aspect of structural modeling for achieving reliable estimates in the maximum likelihood estimation procedure. Typical recommendations of the sample-size-to-parameter ratio of 5:1. As I had eighty sample surveys, I was limited to estimating models with 16 to 18

parameters without violating the spirit of the analysis (Hair, Anderson, Tatham, and Black, 1995).

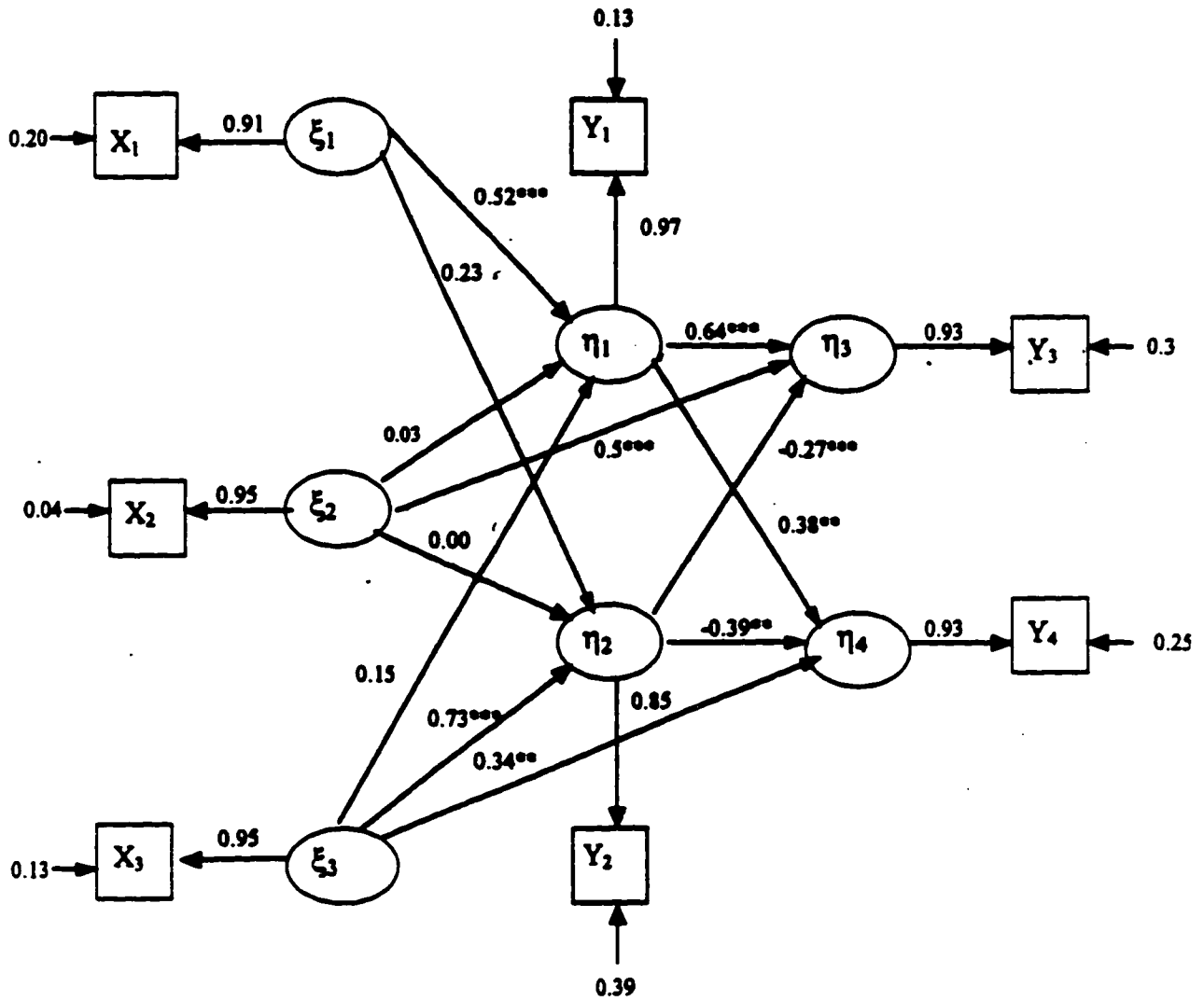
Using the recommendations of Kenny (1979) and Hazer (1986), each scale was averaged across the necessary items for the latent indicator. Using CFA, I established unidimensionality of the scales. This let me use the scale reliability to calculate the factor loading and measurement error for each latent indicator. The path from the indicator to the latent variable was set to the square root of the reliability of that variable. For example, if Human resource integration had a scale reliability of .95, then the path from the indicator to the latent variable was set to .97. Next, in order to calculate error variances for the theta-delta and theta-epsilon matrices, the variances from the original input variance-covariance matrix was multiplied by one minus the reliability of the relevant scale. For example, the error variance of Global strategy was calculated as follows: (1) The variance of the scale score was 1.168; (2) One minus reliability was  $1 - .81 = .19$ ; (3) Hence the input into the relevant theta-delta matrix for Global strategy was  $1.168 * 0.19 = 0.22$ . In addition to setting the  $\lambda_s$ ,  $\delta_s$ , and  $\epsilon_s$  I freed  $\phi_{23}$  and  $\psi_{34}$ . Thus, the overall analysis included the following steps. After initial setting of the data file, I did a preliminary descriptive and correlation analysis on the overall data. This data was also used as an input to initial principal component varimax rotated factor analysis. Based on this, items were dropped and a confirmatory factor analysis was run using LISREL. Based on this analysis, the final path model was run after incorporating the relevant reliabilities.

**FIGURE 2**  
**PATH MODEL WITH LISREL NOTATION<sup>6</sup>**



<sup>6</sup> Refer to Appendix B for LISREL notation.

**FIGURE 3**  
**PATH MODEL WITH PARAMETER ESTIMATES<sup>7</sup>**



<sup>7</sup> \*\* p < 0.05 \*\*\*p < .01

## CHAPTER VI

### RESULTS

Table 1 has the descriptive statistics and the correlations. Results of the confirmatory factor analysis suggest that scales being used have the appropriate validities (see Table 2). The mean for the international strategy scale was 5.27 with a standard deviation of 1.08. This suggested that most of the subsidiaries in the sample had perceived their parent's international strategy to be of a more global nature as opposed to a multidomestic nature. This meant that in most of these multinational organizations, parents were using global coordination mechanisms for exploiting economies of scale and scope in manufacturing, marketing, and other processes in their value added chain. Subsidiaries depended on their parents to provide managerial support, technology, key personnel and other expertise on a regular basis. Examples of firms scoring high on global strategy included US1 and US3. Interviews in some of these organizations confirmed the global and multidomestic nature of their respective organizations.

Institutional factors for managers had a mean of 2.71 and a standard deviation of 0.6 whereas institutional factors for non-managers were much stronger with a mean of 3.71 but were also more susceptible to contextual variations as shown by the standard deviation of 1.14. This clearly indicated that the institutional pressures for non-managers were more significant and more fragmented in the institutional environment. Using Carroll et al.'s (1988) fragmentation index, I found that the institutional environment of non-managers was much more fragmented than that of managers. Both factor analysis and interviews suggested that competitors, both local and multinational, were important sources of institutional pressures for managers while the legal systems (i.e., labor laws), the state government, and unions comprised the important institutional elements for the non-managers.

The average subsidiary in the sample was only moderately integrated with respect to HRM, scoring 3.12. The standard deviation of this scale was 1.6, the largest of all the scales. This clearly suggested that while some firms had highly integrated HR, most subsidiary HR was not overly integrated. This could be explained in part by governmental policies of the earlier decades that constrained Indian subsidiaries from playing a meaningful role in the multinational network. As Prahalad and Doz (1987) have noted in their examples of the Philips' radio business, while being globally oriented the world over, its Indian subsidiary was practically isolated from the multinational network. Other pressures such as foreign exchange conservation meant that Indian HRM professionals could ill-afford to travel abroad as most organizations gave priority to technical professionals over administrative professionals. Interviews with senior HR managers reiterated the above interpretation.

On the average most subsidiaries tended to be more responsive in terms of HR. The mean for this scale was 5.02 and the standard deviation was much tighter at 1.20. This suggested that most subsidiary HR was responsive in nature. Given the nature of the institutional environment, with archaic and rigid labor laws, strong plant unions or national unions, governmental interference both in adjudication as well as support for unions, along with political support for unions, this was not surprising. In fact, additional cluster analysis suggested that 70 out of the 80 subsidiaries scored highly on this scale.

According to the data, career systems for managers (mean = 3.65 and standard deviation =1.47) were more similar to headquarters compared to the career systems for workers (mean = 2.65 and standard deviation =1.33). This suggested that subsidiaries had more flexibility in designing career systems for their managerial employees compared to those of their non-managerial employees. As HR systems for managers faced most of their institutional pressures from their competitive environment, it was not of a coercive nature. In fact, subsidiaries had to import career systems of headquarters



or mimic career systems of successful subsidiaries in order to attract and retain quality human resources. On the other hand, as far as non-managerial systems were concerned, they were dictated by collective bargaining agreements, union pressures, and legislation. Collective bargaining agreements often constrained promotions and transfers of non-managerial employees and labor laws prevented lay-offs of employees and closure of subsidiaries. This resulted in locally developed HR systems which tended to resemble each other more than they resembled the headquarters' career systems.

In addition to the descriptive statistics, the bivariate correlations provided both support for the hypotheses as well as recommended some improvements in the path model. International strategy was correlated with HR integration (0.28 at the 0.01 level) and with similarity of managerial career systems (0.20 at the 0.1 level). Institutional factors for managers was positively correlated with Institutional factors for non-managers (0.37 at the 0.01 level), HR responsiveness (0.24 at 0.05 level) and Career systems for managers (0.22 at the 0.05 level). Institutional factors for non-managers was highly correlated with HR responsiveness (0.52 at 0.01 level). HR integration was highly related to both set of career systems. Finally both career systems variables were highly correlated with each other. In general, most results were in the hypothesized directions. One surprise was that institutional factors for managers actually pushed the career systems of the managers in the direction reverse to that had been hypothesized. This could be explained if we consider the nature of the institutional influence. In case of the managers, the competitors exerted both normative and mimetic forces on the focal organization. In response to these forces, it is possible that organizations were able to adopt parent systems in the current era of liberalization. The correlation analysis also suggested the two sets of institutional elements were highly correlated and the two sets of career systems were highly correlated. I was able to use this information in the path model and free the relevant correlations in the structural model. Additionally, these two correlations provided some interesting insights. While the nature of the two institutional

environments differed, HR managers in strongly institutionalized non-managerial environments were not able to discern the difference between the institutional environments of managers and non-managers. This probably resulted from the fact that most senior HR managers had a strong labor relations background and tended to give more importance to the non-managerial institutional environment. The other interesting result was the extremely high correlation between the two sets of career systems (0.74 at the 0.01 level). This suggested that career systems of the two sets of employees influenced each other. Interestingly, HR integration influenced both career systems in the same direction suggesting that it was not possible to influence one system without influencing the other.

The path model has a non-significant chi-square and all other indicators (fit indices, etc.) suggest that the path model is able to recover the input variance-covariance matrix efficiently (Chi-square: 5.97 (7df) -  $p = 0.54$ ; goodness-of-fit index (GFI) = 0.98; adjusted goodness-of-fit index (AGFI) = 0.92 and root-mean-square-residual = 0.07 (see Table 3)). Next we turn to the path estimates.

**International strategy and subsidiary HRM.** International strategy of the headquarters is positively related to Human resource integration (0.52,  $p < .01$ ). However, International strategy did not have a significant relationship with Human resource responsiveness (0.23 and n.s.). Thus, Hypothesis 1 received partial support.

**Institutional Factors and subsidiary HRM.** Institutional factors for non-managerial employees is positively related to Human resource responsiveness (0.73,  $p < .01$ ); it was not related to Human resource integration. Institutional factors for managerial employees is not significantly related to either Human resource responsiveness or Human resource integration. Thus, Hypothesis 2 received partial support.

**Subsidiary HRM and similarity of career systems to parent.** Human resource integration is positively related to similarity of career systems for both managerial employees (0.64,  $p < .01$ ) and non-managerial employees (0.38,  $p < .05$ ); Human resource responsiveness is negatively related to similarity of career systems for both managerial employees (-0.27,  $p < .01$ ) and non-managerial employees (-0.39,  $p < .05$ ). Hypothesis 3 received complete support.

**Institutional Factors and similarity of career systems to parent.**

Institutional factors for managerial and non-managerial employees are positively related to similarity of career systems for both managerial employees (0.48,  $p < .05$ ) and non-managerial employees (0.34,  $p < .05$ ). This finding was contrary to the relationships suggested in Hypothesis 4.

**TABLE 1**  
**Descriptive Statistics and Correlations**

Measure	Mean (SD)	1	2	3	4	5	6	7
1. International Strategy	5.27 (1.08)	-						
2. Institutional Factors for Managers	2.71 (0.60)	-0.04	-					
3. Institutional Factors for Non-Managers	3.71 (1.14)	-0.2*	0.37***	-				
4. Human Resource Integration	3.12 (1.60)	0.28***	0.04	0.04	-			
5. Human Resource Responsiveness	5.02 (1.20)	0.06	0.24**	0.52***	0.09	-		
6. Career Systems for Managers	3.65 (1.47)	0.20*	0.22**	-0.04	0.61***	-0.07	-	
7. Career Systems for Workers	2.65 (1.33)	0.08	0.18	0.06	0.39***	-0.08	0.74***	-

\*p<.1 \*\*p<.05 \*\*\*p<.01

**TABLE 2**  
**Results of Confirmatory Factor Analyses**

Scale	Chi-Sq	GFI	AGFI	RMSR	CoD	NR	Average Var Extract.
1. International Strategy	N.S.	0.99	0.99	0.008	0.89	yes	0.6
2. HR Integration	N.S.	0.90	0.85	0.03	0.93	yes	0.7
3. HR Responsiveness	N.S.	0.95	0.88	0.06	0.85	yes	0.48
4. Career Systems for Managers	0.03	0.93	0.80	0.06	0.85	yes	0.55
5. Career Systems for Workers	0.03	0.93	0.82	0.05	0.88	yes	0.56

GFI - Goodness-of-fit index  
AGFI - Adjusted Goodness-of-fit index  
RMSR - Root Mean Square Residual  
COD - Coefficient of determination of structural equation  
NR - Normalized residuals

**TABLE 3**  
**Results of Path Model**

To:	Human Resource Integration	Human Resource Responsivenss	Career Systems for Managers	Career Systems for Workers
From:				
International Strategy	0.52***	0.23	-	-
Institutional Factors for Managerial	0.03	0.00	0.48***	-
Institutional Factors for Workers	0.15	0.73***	-	0.34**
HR Integration	-	-	0.64***	0.38**
HR Responsiveness	-	-	-0.27***	-0.39**

\*\* p < 0.05 \*\*\* p < .01

1. Chi-square 7df 5.97 (prob. level = 0.54)
2. Goodness-of-fit = 0.98
3. Adjusted Goodness-of-fit = 0.92
4. Coefficient of determination of structural equation = 0.69
5. Root mean square residual = 0.07
6. Normalized residuals: all < 2
7. Qplot: slope > 1

## **CHAPTER VII**

### **DISCUSSION**

This research provided support for the framework suggested in the paper. Hypotheses 1 and 2 received partial support; results of hypothesis 1 confirmed the recommendations of the current SIHRM frameworks while results from Hypothesis 2 clearly indicated that future work in SIHRM should consider the "institutional environment." Hypothesis 3 also confirmed the integrative nature of strategic and institutional factors and the push and pull nature of these two forces. However, Hypothesis 4 was significant in the opposite direction; I will resort to some cases to illustrate such a possibility. The remainder of this section considers the statistical analysis in light of (1) interviews with 24 senior managers and (2) the Indian institutional context.

#### **Multinational Strategy and Subsidiary Human Resource Management**

As mentioned earlier, few studies have actually studied the influence of global strategy on the subsidiary HRM function. In this study I specifically considered the influence of global strategy on HRM in the Indian context. Prior to liberalization, i.e., before 1990, it was nearly impossible for most Indian multinationals to play a meaningful part in their multinational networks. For example, Prahalad and Doz in their study of multinationals position the Philips' consumer electronics operations high on integration. However, the Indian arm of the same operation is placed low on integration and high on responsiveness. This was a characteristic of most multinational subsidiaries due to governmental regulations. However, liberalization caused multinational subsidiaries to become more integrated within their respective networks. A few years ago, most Indian subsidiaries would have been classified under the rubric of "multi-

domestic" strategy; today many are more likely to be categorized as "global". Such firms, according to the theoretical framework would have higher HR integration.

Both the quantitative and qualitative results lend support to most SIHRM frameworks. This is consistent with the SIHRM framework of Taylor et al. (1996) which suggests that a corporate parent's international strategy affects its SIHRM orientation. According to the model multinationals tend to have global strategies when customer needs, product awareness, and manufacturing technologies become globally standardized. This resulted in these subsidiaries' HRM activities appearing more similar to those of their headquarters. Specifically, Rosenzweig and Singh (1991) suggest that subsidiaries of multinationals with global strategies tend to be more dependent on the parent for resources than subsidiaries of multinational with multidomestic strategies. Others (Bartlett and Ghoshal, 1991) have suggested that global firms exploit benefits of global coordination of manufacturing, research and development, and other activities in the value chain in order to exploit economies of scale and scope and derive benefits from other organizational synergies. On the other hand, multidomestic organizations focus on localizing the activities in the value chain and the nature of local pressures warrants the functioning of loosely coupled multinational networks. Thus, in the case of global strategies, multinationals are likely to have tightly coupled networks, and in the case of multidomestic strategies, multinationals are like to have loosely coupled multinational networks. As the data suggests, most Indian subsidiaries believe that their parents follow global strategies, and that their subsidiaries are becoming integrated into the multinational networks.

This is clearly reflected in the demands made on the subsidiary HRM function. An important consequence of using global strategy is the centralization of the multinational HRM function. Centralization calls for coordination and for the multinational to resort to formulating "global HR plans" or "international HR master plans" or "global task forces". As a result there is an increase in both professional and



personal contact between HR managers in the multinational network. Due to the nature of information systems and global career patterns, multinationals are also forced to standardize HR systems and policies worldwide. The ever increasing use of information systems in business activities has also influenced HR integration. A couple of decade ago, information flows between subsidiaries were on a "need to know" basis as transferring information from one point in the multinational network to another was prohibitively expensive and cumbersome. As information becomes globally available, HR managers are able to better manage career paths of their employees and at the same time assist the organizations in finding the right people for assignments in other parts of the network. An important result of globalization is the standardization of departmental structures, hierarchical arrangements, training, and other HR processes and activities. Most of the interviews complemented the above statistical findings.

For example, in one interview with an American subsidiary, US1 was a good example of HR Integration. US1 scored extremely high on the global strategy scale. According to the Head of the HR, subsidiary HR was heavily influenced by the headquarters' as well as the regional headquarters' directives. The head of HR had quarterly meetings with the Director of HR in the Asia-Pacific region. According to the Director of HR, all countries in the Asia-Pacific region had standardized management practices. US1 promoted and transferred HRM personnel extensively all over the Asia-Pacific region and even to their headquarters in the United States. The Director of HR in Hong Kong was from the Indian subsidiary; his prior assignment had been in Jakarta, Indonesia. The Director of HR of Chinese operations was from the Indian subsidiary. Additionally, one HR manager from Bombay had been transferred to the US and another had been transferred to Saudi Arabia. Similarly managerial personnel from the technical, finance, and marketing functions had been transferred to subsidiaries in Japan, Philippines, and Thailand. Finally training of HR was very elaborate and standardized globally.

At the other extreme was a German subsidiary, GR3. As mentioned earlier, GR3 was primarily in the engineering consulting business and was an isolated subsidiary; i.e., GR3 followed a multidomestic strategy. Human Resource practice was not particularly integrated. The head of HRM had never been to the global or regional headquarters; the organization had no formal management training programs, though it did conduct a few in-house technical training programs. On the whole, the subsidiary HRM at GR3 was of an administrative nature; it was totally out of tune with current HR practices and was heavily involved in administrative details.

Some other organizations that scored highly on global strategy and HR integration were GR2, US3, and SS1. In all three cases, executives recounted many of their global experiences. As mentioned earlier, the global merger of GR2, FR2, and an US MNC had necessitated merger of the Indian operations of GR2 and Roussel. Senior executives had to frequently visit the new headquarters in order to plan the restructuring of the Indian operation. The Head of HR at SS1 was involved in similar activities as a global merger between SS1 and Sandoz had necessitated the merger of the two subsidiaries in India. In addition, SS1 had an elaborate global training program for senior executives and the Head of HR was certified to conduct specialized training; he had been certified by SS1 in the United Kingdom. US3 had formed a global task force that was specifically looking into standardization of employment systems and practices all over the world. The nature of the influence of the international strategies (i.e., global or multidomestic) was clearly reflected in the activities of the HRM in the Indian subsidiaries.

### **Institutional Factors and Subsidiary Human Resource Management**

The results also suggest that an important determinant of SIHRM is the nature of the institutional environment. Many SIHRM studies have considered the nature of influence of resource dependencies on subsidiary HRM. This thesis specifically

focused on the nature of institutional influences on multinational HRM. While Global Strategy influenced HR integration, and was reflected in the nature of HR activities of the subsidiary, the institutional environment forced local responsiveness on the HR function. One important result of the institutional influence was the local autonomy granted to subsidiary HR. Subsidiary HR had to extensively deal with local government authorities and local unions; and in most cases they were involved in industrial disputes that were subject to local litigation. Another facet of responsiveness was the involvement of subsidiary HR personnel in associations like the local chapters of National Institute of Personnel Management and the HRD Network.

The legal system along with its numerous labor laws and institutions was a major force that coerced subsidiary HRM into reconciling its practices to those of the local environment. Court orders prohibiting lay-offs or transfers constricted the autonomy of HR. Other institutional elements like unions and political parties, often acting in unison, limited subsidiary HR.

Institutional factors for non-managerial employees had a very strong influence on subsidiary HRM. Most of the senior HR executives had multiple examples of such constraints. They had to deal with national unions, multiple unions, local and national political parties, the legal system and the like. This study found that institutional factors for non-managers had the most influence on HR responsiveness. As mentioned earlier, most European scholars have already acknowledged the importance of these factors on HRM. One dominant institutional element was the legal system. The Indian HR environment has a vast legal framework, partially inherited from British rule and partially developed independently in post-independence socialist India. The legal system regulates recognition of unions, nature of bonus payments, exit benefits, etc. It also prevents organizations from laying off workers or closing establishments easily. In the past, it has been nearly impossible to secure permission to close any establishments

from authorities. Other institutional elements such as national and local unions often have political affiliations and have a strong influence on HR management.

As an illustration of the pull of the institutional environment, we recall the case of a Dutch subsidiary (DU1) which employed over 10,000 employees. The head of HRM had to deal with a strong national union. Since 1979, the national union's agreements covered stipulations for HR practices for all non-managerial employees. As mentioned earlier, DU1 has continued to press for management-operational flexibility on the shop floor since it submitted its first Charter of Demand in 1981 to its union and this had resulted in strikes on many of their manufacturing locations. To illustrate the nature of the union's protest, we quote from a letter from the union to the factory manager at Bombay. "It was mutually agreed that the issue regarding revisions of the manning pattern (in the Olivotto plant) would be sorted out by the parties mutually. [But] management...did not bother to discuss the issue of revision of manning pattern of the Olivotto plant...It appears that the management is very conveniently construing the term cooperation as the union's consent to anything and everything the management proposes...(DU1 Workers' Union, letter dated 22 May, 1986)."

While DU1 had held its ground against local unions in general, it had to deal with the national union extensively. According to some union leaders, "We never used to come to a settlement for years together, but after the formation of the national union it was not possible for management to resist in that way because the national union would pressurize the management to come to a settlement." (Banaji and Henseman, 1990, p. 171). This represents a clear case of institutional pressures from a federated union at the national level.

Yet another case of strong effects of the institutional environment is illustrated by a Swedish subsidiary (SW1). The head of HR of SW1 had to deal with a unique set of non-managerial employees. SW1 faced a unique problem; while it had different plant unions with different affiliations at different locations, there was a concerted effort on

the part of the unions to form an all-India federation, i.e., a national union. It had a communist union in one of the plants, which headed by the Chief Minister of the State (similar to a Governor in the US) and also the head of the Communist Party of India (Marxist). While the Chief Minister did not conduct the collective bargaining negotiations personally, one of the leading Members of Parliament was sent on his behalf. Thus, politics and union leadership were inextricably linked. This plant union was very powerful in obstructing management imperatives.

While Calcutta and Madras plant unions had strong AITUC affiliations (i.e., communist), the Bombay union was affiliated with INTUC. Nagpur, which was not unionized, began to show signs of union formation. SW1 was able to thwart this effort and was able to retain plant-level unions without a national federation, and thus collectively bargained at the plant level. But on the non-managerial front, they had accumulated surplus employees who were difficult to terminate, given that the communist unions (acting in the spirit of communist comradeship) usually refused to negotiate on issues that threatened job security. In both DU1 and SW1, the HRM function was mainly responsive as most of HR activities were boundary-spanning activities involving the management of the different institutional elements (national unions, political parties, state, governments etc.)

Thus, this study added a unique dimension to traditional SIHRM models. In the last decade, the importance of SIHRM has grown with increased globalization. With increased foreign direct investment in the emerging markets and the importance of these markets, it becomes imperative to understand employment systems in these countries. By their very nature, emerging markets are going to some of the potentially largest markets in the future. Multinationals that fail to understand the local institutional environment will have to carry the baggage of their current problems far into the future. Thus, it becomes important to understand the institutional environment of HRM for two important reasons. First, many of these markets such as India are offering opportunities

for the old multinationals to strategically deal with the institutional environment. Organizations that have been encumbered with past practices are being given a fresh opportunity to cut the slack and reduce bureaucracy. Organizations that fail to offer strategic responses such as restructuring and VRSs will be disadvantaged in the future due to a lack of competitiveness and flexibility. While many organizations have started using these strategic responses, most organizations still tend to believe in the static and influential nature of the institutional environment. While it is impossible to ignore the HR institutional environment completely, organizations need to understand the changing nature of this environment.

### **Managerial and Non-Managerial Career Systems**

The results regarding the influence of HR Integration and HR Responsiveness suggest that career systems are simultaneously influenced by these two opposing forces. Additionally, an interesting finding of this study was the nature of the influence of the institutional environments on the career systems of both managerial and non-managerial employees. According to the hypothesis, the institutional influence should have pulled these systems in the direction of the local environment, but the data suggests that the influence was in the other direction, that this influence pushed the systems towards the parent's career systems.

HR Integration had a stronger influence on career systems of managers than those of non-managers. If the criticality of the managerial employees as a group is higher than that of the non-managerial employees, these results are consistent with Taylor et al.'s (1996) SIHRM framework. The contribution of this hypothesis is in confirming their suggestions and also in identifying the influence of HR responsiveness on the same systems. According to most SIHRM frameworks, HR integration would pull the systems in the direction of those of the parent. The added dimension of the local institutional environment would push the same systems in the other direction.

Integration activities tended to standardize HR systems for both set of employees. Subsidiaries that scored highly on HR integration tended to have global centralization in HR, used standardized HR training, use global HR information systems, and other activities that demanded global coordination efforts. As a result, such multinationals tended over time to create a social construction of HR systems that was consistent all over the world. They either replicated parent career systems or at the most modified them slightly in order to adapt them to Indian conditions.

As HR integration had similar influences on both set of career systems, the data suggests that multinationals do not apply inconsistent policies across the two sets of employees. Multinationals tends to pay higher salaries and wages compared to locally-owned organizations. This suggests that multinational compensations systems are not locally constrained by the local environment; the same logic can be extended to other multinational career systems. However, the influence of HR integration on the career systems for managers was greater than that for the career systems for workers. This is not only consistent with current SIHRM frameworks but also consistent with the institutional arguments. Institutional forces in case of the two sets of employees tend to differ in their basic nature. In the case of managers, competitors (both multinational and local) influence career systems choices, but in case of the non-managers, it is the interaction of the legal, political, governmental, and industrial relations subsystems that interact and constrain choices. According to institutional theory, the first set of institutional forces would be classified under the rubric of "normative" or "mimetic"; that is choosing socially accepted employment patterns or choosing competitor systems that are considered to be successful. The second set of forces while having an underlying normative nature are essentially coercive in their influence. Thus, multinational subsidiaries have different latitudes in dealing with the two sets of institutional pressures; and clearly have more freedom in managing institutional pressures for managers as compared to institutional pressures for non-managers.

Again, HR responsiveness was more influential in pushing the non-managerial systems as compared to the managerial systems. This is an important finding. While the proportion of influence that both HR integration and HR responsiveness have on the two career systems is different; nevertheless it is still in the same direction. Thus, there is a tendency for subsidiary HR practices to be influenced in a similar manner by both the parent and the local environment. This result is also consistent with the earlier interpretation that high HR integration leads to more choices in selection of career systems for managers than those for workers. Similarly high HR responsiveness leads to more constraints on the choices of career systems for non-managers compared to those for non-managers. As institutional influence for managers on subsidiary HR responsiveness is nonexistent, one can conclude that institutional factors for non-managers are the sole drivers of HR responsiveness in this case. Though the institutional factors for managers push the career systems of managers towards the parent's career systems, HR responsiveness forces a social construction of reality that is locally based due to the nature of the responsiveness forces. As a result, while institutional pressures for managers do not influence the career systems for managers in a local direction, the nature of HR responsiveness due to the institutional pressures for non-managerial employees does tend to influence the career systems for managers in a local direction.

US1 is a good example of the high HR integration and high HR Responsiveness, and its influence on the career systems management of managerial and non-managerial employees. For recruitment, all possible recruits had to go through the same written examination process, the cut-off scores for which were standardized in the Asia-Pacific region. In addition, multiple interviews were conducted after the written tests, the procedures for which were highly standardized. US1 rarely, if ever, recruited at the non-entry levels.



Promotion systems of US1 were quite different from most other Indian multinational subsidiaries. While other subsidiaries promoted within the subsidiary, promotions would be infrequent or greatly dependent on expansion within the subsidiary. Very few subsidiaries transferred or promoted managerial personnel to other subsidiaries in other countries. At the most a few technical personnel would be deputed to oversee new projects in developing countries or technical personnel would be transferred to the headquarters to acquire more technical training. US1 promoted and transferred personnel extensively all over the Asia-Pacific region and even to their headquarters in the United States.

The managerial hierarchy in US1 was quite shallow; it had only four levels. Managerial training activities were standardized globally across all four levels. As an illustration, HR too had four levels; (1) associate managers, (2) managers, (3) senior managers, and (4) associate directors and above. Training modules were classified under either (1) common competencies and (2) specific competencies. Thus, for a managerial employee to move from level two to level three, the employee had to undergo all common competency modules and some specific competency modules applicable to the employee.

For non-managerial employees, US1 followed many of the HQ strategies. Currently it had a non-unionized working environment but that had not always been the case. For non-managerial employees, US1 had recruitment systems with written testing; they even voluntarily complied with the US EEO and AA guidelines. US1 tried to do away with the union. However, with only one production facility, they did not have much success. New production units were started in weakly industrialized areas and as such lacked unions. With multiple units in place, use of outsourcing; and the government's liberalization policy afforded US1 with an opportunity to replicate its global HR policies for its non-managerial employees. It had an internal union with an

outsider as a union president. US1 developed a Voluntary Retirement Scheme (just like the other multinationals had done before) and was able to close its original plant.

The study also found the institutional environments, while forcing responsiveness on subsidiary HRM, pushed the career systems towards those of the parents. This was an interesting finding. Multinational subsidiaries in India, in the past, have had to deal with rigid rules and customs of the Indian environment. Most collective bargaining contracts spell out such constraints clearly. One reason that we found the relationships to be significant in the other direction is the possible advent of the liberalized economy. Unions have been important institutional elements in constraining HR practices. For example, a German subsidiary, GR2, had clauses that constrained recruitment and promotions of non-managerial employees in its collective bargaining agreement.

As a result of the agreement, the organization had a clearly specified promotion policy for its workers. As mentioned earlier, some of the salient points of this policy were:

*(b) It is further agreed that in terms of mutually agreed Classification Scheme at Annexure III, the company shall in the month of April, review the performance of the workmen and such workmen as are found to be good at performance, with potential and positive attitude towards job and regular in attendance and also keeping in view the departmental needs, will be promoted to higher grades. Other things being equal, seniority in service will be given due consideration.*

*(f) It is agreed that when permanent workmen are not available within the department, the company will continue to advertise on the Notice Boards at the establishment covered by this settlement for all vacancies arising in the company. The vacancies so advertised should be in conformity with the job as contained in the classification as at Annexure IIIA, IIIB, and IIIC.*

Thus, the union had not only forced seniority to be a major consideration in promotions but also restricted the hiring of all vacancies from within the organization. A more striking example of strong union control over promotions is a Anglo-Dutch subsidiary, Hindustan Lever. Here, according to Banaji and Hensman (1990), largely due to the enforcement of a complex set of seniority rules on the shop floor by the

union, one of the most powerful private-sector managements in the whole of India has been forced to relinquish control over a crucial area of HRM. In the Hindustan Lever factory, seniority operates in two fundamental forms - departmental and gradewise. As between grade and department, priority is applied to the latter; anyone in the department would get a priority over someone in a higher grade from outside the department. The way the system operates forms a powerful obstacle to the movement of workers between departments, and in this sense it is obviously a fetter on management's flexibility in deployment. When a new manager tried to break the system and held interviews for the new jobs, the union told the workers that only the senior ones should apply. Thus, unions (with support of political party affiliations) have been in a position to control promotion policies, influence transfers of non-managerial employees, and reduce retrenchment.

However, the spirit of liberalization has influenced both the institutional environments. While, unions in the past had been adamant over retrenchment and closure; today, they are willing to negotiate voluntary closures in lieu of monetary benefits. An example of the willingness of unions' cooperation is found within the preamble of a collective bargaining agreement between one of the largest US pharmaceutical subsidiaries, US2, and its union in Chapter IV. The preamble clearly indicates the changed attitudes of some unions in the liberalized economy. From an attitude of belligerence and hostility, unions seem to have recognized the need for survival of both the organization and the union. A Swiss subsidiary, SS1, is a good example of such this changed labor-management climate. The subsidiary's Bombay plant had one of the highest paid workforces in spite of abysmal levels of productivity. Expansion at that particular plant was next to impossible because of locational constraints and organizational imperatives. Locationally, there was very little room for expansion. Organizationally, the entrenched union made even simple organizational matters difficult. The management had preliminary discussions with the union and

proposed four alternative scenarios to them as mentioned in Chapter IV. The union accepted the voluntary retirement scheme and the subsidiary could close its operations without resorting any legal entanglements. Thus, SS1 was in a good position to manage the institutional environment.

In fact, sixteen of the twenty organizations that I interviewed had similar VRSs. This was a clear indication that the strength of the institutional environment was weakening. Although the legal systems made it near impossible to retrench employees, and unions vehemently opposed such things in the past, it would seem that the multinationals had found a way of dealing with this environment. This probably afforded them opportunities to implement their parent company systems in the subsidiary.

The influence of the managerial institutional environment was evident from a large US banking subsidiary, US3. Due to liberalization it had been forced to increase its compensation at the rate of 30% per annum to retain employees (this was a often repeated theme, for example a large British subsidiary, UK1, had raised its compensation by over 40% in the last one year). According to the Head of HR for the West Zone of US3, "poaching" of executives by newly entered multinational was creating problems. Hence organizations had to be more cognizant of competitors' HR systems in order to reduce turnover. The executive also stated informally that most new multinationals were sometimes offering to double current salary in order to attract executives. It is likely that with increased competition and reduced union/political party resistance, multinationals were trying to incorporate more of their parent's practices in order to retain managerial human resources.

An exploratory cluster analysis further suggested that a three cluster solution was suitable, similar to Hannon et al (1995). While 10 subsidiaries were in the high HR integration-low HR responsiveness, most of the subsidiaries in the other two clusters were high on HR responsiveness irrespective of the HR integration dimension. Thus,

responsiveness seems to be the rule in Indian HR. I feel that this should be considered in light of the discussion above. While earlier responsiveness meant little flexibility due to the constraints of the institutional environment, today it seems to be a result of inertia from the old days. There are many new ways of dealing with such an institutional environment.

## **CHAPTER VIII**

### **CONCLUSIONS AND LIMITATIONS**

This thesis contributes to current SIHRM research in many ways. First, an important contribution of this thesis is the incorporation of the institutional dimension into SIHRM. All three sources - theory, data, and context - highlight the importance of the institutional context from both academic and pragmatic angles. Models that completely ignore this dimension are likely to receive only a partial picture of the phenomenon under investigation. Much research has focused on resource dependence theory to explain the importance of local adaptations in a SIHRM context based on the premise that local resource dependencies will force localization and headquarters' resource dependencies will make subsidiary HR more similar to that of the parent. This is true but an incomplete picture. The very notion of "employment" is embedded in the social context of a country. Most nations consciously or unconsciously decide the nature of employment it would like to provide to its citizens. In some countries, the focus of such employment could be job security (Switzerland, China, India, and Germany) while in other countries it could be of a more contractual nature (the US, Taiwan). Many forces have been at work over many decades influencing the employment systems within nations. Thus, most employment systems get embedded in a social context and any system that is not consistent with the socially created reality in this context is liable to face strong institutional pressures. This thesis makes a strong case for considering the nature of these institutional contexts.

Another finding of this study is regarding the nature of the institutional environment. Institutional environments contain many different elements. Different sets of institutional elements influence human resources in different ways. For managerial employees, elements that apply normative and mimetic pressures (competitors, legal system) become important. For non-managerial employees, elements that apply

coercive as well as normative and mimetic pressures become important. In addition to these influences, the nature of the institutional elements as well as their sources of pressures change over time.

The thesis also reiterates the importance of the international strategic orientation of the parent organization. In this fast changing world, where globalization is making inroads into most local cultures, this has an important implication. As most organizations move from multinational, international, and global mentalities to transnational mentalities, managing human resources is going to be an extremely important in providing organizations with competitive advantages. Transnational mentalities call for increased learning, adaptation, and innovation. Multinational HR systems will play a very important role in providing multinationals with the tools to acquire transnational capabilities.

Additionally, the thesis also provides support for using the IR framework in the multinational HR context. This allows for an elegant synthesis of two important perspectives: multinational strategy and institutional theory. Human resource management has been termed as the most responsive of all multinational functions. While this may be true, it behooves us to consider the dynamic nature of the IR framework. As more organizations acquire transnational capabilities, as information systems networks spread all over the world, as scale and scope economies keep increasing, there will be more integration and coordination taking place in multinational organizations. This would make HR more integrative in the future. According to this thesis, career systems for both managerial and non-managerial employees are influenced by integration in a similar manner. While it seem obvious as far as managerial employees are concerned, the results with respect to non-managerial employees are quite unexpected.

Finally, this thesis adds to current literature by contextualizing the results using both a historical perspective and cases in multinational organizations. Being able to

understand how institutions and organizations arise and develop over time and have reciprocal influence on each other provides an interesting backdrop for understanding the statistical analyses.

A thesis also raises an opportunity to identify future research as well as shortcomings. Future research should consider both strategic and institutional perspectives in an integrative manner. Evolutions of institutions need to be detailed in a more careful manner. Institutional pressures need to be identified explicitly, and organizational strategic imperatives in dealing with these institutional pressures need to be understood. Two issues regarding the nature of institutional environments warrant future attention. First, in the spirit of Meyer and Scott (1992) and Carroll, Goodstein, and Gyenes (1988) research needs to specifically focus on the fragmentation of the institutional environment. Specifically, future research should focus both on the process of fragmentation in terms of its historical evolution as well as the implications of such an environment for the HR function. Second, in the spirit of DiMaggio and Powell (1983), future research needs to consider the specific institutional pressures - coercive, normative, and mimetic - both independently and interactively in order to assess their influence on subsidiary HRM. Specific institutional explanations in other contexts may form a suitable point of departure for building theory on this front. Specific questions in this domain would include: (1) How are specific HR structures and processes imposed on organizations? (2) How do certain HR structures and processes get authorized by the environment? (3) How and why do organizations mimic HR structures and processes of other organizations? (4) What is the role of imprinting in the institutional process? (5) What are the implications of institutional environmental heterogeneities on organizations? and (6) How are some organizations able to bypass societal normativism successfully by using strategic responses in a meaningful manner? As more and more multinationals feel the need to acquire transnational capabilities, they will have to manage human resources in a more integrative manner while simultaneously manage



**institutional environments in order to enhance learning, innovation, and adaptation within the organization.**

**Finally, some limitations of this study should be discussed. First, I used surveys directed to the "Heads of Human Resources" within Indian subsidiaries. Thus, the study has all the potential limitations of survey research. However, this does not detract from the study as: (1) most questionnaire items were about behaviors of human resource professionals in the multinational subsidiaries rather than their reactions or thoughts about what organizations do in these settings; (2) qualitative interviews provided strong support to the statistical analyses; and (3) results are also consistent with the historical explanations of the overall context. Second, the study used subsidiaries in only one country to test the model. While preliminary interviews for this research were conducted in both India and China, financial constraints precluded a two country study. Third, institutional environments are culturally defined, so it becomes important to identify their elements across different nationalities. For example, in the case of China, the HR legal systems may not be influential today, but the political party, at the local, district, province, and state level is very influential in defining the institutional environment of HR for most multinational subsidiaries and joint-ventures. Fourth, using multiple respondents would further strengthen the study; future studies need to use multiple respondents from the subsidiaries and try and validate some of the scales from the parent organization.**

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## Appendix A

### Survey of HRM Practices in Indian Multinational Subsidiaries & Joint Ventures

**General Instructions: Please circle the appropriate response**

#### 1. International Strategy

Each of the statements below describe elements of an organization's competitive environment. To what extent do each of these statements characterize your subsidiary's/joint venture's competitive environment?

	not at all characteristic							extremely characteristic
1. Extent of worldwide standardization of customer needs	1	2	3	4	5	6	7	
2. Worldwide product awareness	1	2	3	4	5	6	7	
3. Worldwide standardization of product technology	1	2	3	4	5	6	7	
4. Competitors existing in all key markets	1	2	3	4	5	6	7	
5. Competitors marketing standardized products worldwide	1	2	3	4	5	6	7	

#### 2. Human Resource Integration

To what extent do the following Human Resource (HR) activities occur within your subsidiary/JV with respect to the parent organization or the JV foreign partner?

	low						high							
1. Coordination of decisions via HR international master plan	1	2	3	4	5	6	7							
2. Personal contact between HR managers at different international locations	1	2	3	4	5	6	7							
3. Transfer of HR managers between different international locations	1	2	3	4	5	6	7							

4. Attend International HR meetings and conferences	1	2	3	4	5	6	7
5. Standardizations of HR systems and policies worldwide	1	2	3	4	5	6	7
6. Use of international HR information systems	1	2	3	4	5	6	7
7. Structural similarity of HR departments world wide	1	2	3	4	5	6	7
8. HR training is standardized globally	1	2	3	4	5	6	7
9. Top HR executives involved in major top management personnel related decisions	1	2	3	4	5	6	7
10. HR policy and policy manuals are standardized globally	1	2	3	4	5	6	7
11. The Managing Director/CEO is an expatriate	1	2	3	4	5	6	7
12. Some senior managers (other than MD/CEO are expatriates)	1	2	3	4	5	6	7
13. Approaches to industrial relations are similar across subsidiaries worldwide	1	2	3	4	5	6	7

### 3. Human Resource Responsiveness

To what extent do the following statements characterize your subsidiary's/JV's HR activities in the local operating environment?

	low						high
1. HR can decide on policies and practices locally	1	2	3	4	5	6	7
2. HR departments are structurally similar to other HR departments locally	1	2	3	4	5	6	7
3. HR is forced to recruit personnel from an extremely restricted external labor market	1	2	3	4	5	6	7
4. HR is forced to train the newly recruited personnel extensively	1	2	3	4	5	6	7
5. HR has to deal extensively with local government authorities	1	2	3	4	5	6	7

6. HR has to deal extensively with local unions	1	2	3	4	5	6	7
7. HR has to deal extensively with national unions	1	2	3	4	5	6	7
8. HR managers are active members in local personnel management associations	1	2	3	4	5	6	7
9. HR is involved in local litigation	1	2	3	4	5	6	7

#### 4. Influence of the institutional environment

To what extent do the following groups influence HR practices for managerial employees (top management, middle management, and supervisory employees)?

To what extent do the following organizations/entities influence questions of Human Resource Management for salaried employees	no influence							strong influence						
1. Local or state government	1	2	3	4	5	6	7	1	2	3	4	5	6	7
2. Local unions	1	2	3	4	5	6	7	1	2	3	4	5	6	7
3. National unions	1	2	3	4	5	6	7	1	2	3	4	5	6	7
4. Local political parties	1	2	3	4	5	6	7	1	2	3	4	5	6	7
5. National political parties	1	2	3	4	5	6	7	1	2	3	4	5	6	7
6. Legal system	1	2	3	4	5	6	7	1	2	3	4	5	6	7
7. Local Competitors	1	2	3	4	5	6	7	1	2	3	4	5	6	7
8. Multinational competitors	1	2	3	4	5	6	7	1	2	3	4	5	6	7

To what extent do the following groups influence HR practices for non-managerial employees (workers, clerical employees etc.)?

To what extent do the following organizations/entities influence questions of Human Resource Management for hourly employees	no influence							strong influence						
1. Local or state government	1	2	3	4	5	6	7	1	2	3	4	5	6	7
2. Local unions	1	2	3	4	5	6	7	1	2	3	4	5	6	7

3. National unions	1	2	3	4	5	6	7
4. Local political parties	1	2	3	4	5	6	7
5. National political parties	1	2	3	4	5	6	7
6. Legal system	1	2	3	4	5	6	7
7. Local Competitors	1	2	3	4	5	6	7
8. Multinational competitors	1	2	3	4	5	6	7

### 5. Career Systems Management

- a. Similarity of career systems to HQ practices for salaried employees and  
b. Similarity of career systems to HQ practices for hourly employees

The following section asks you to compare career systems practices (recruitment, training and development, promotions, and exits) for managerial and non-managerial employees

	low						high
1. Amount of recruitment	1	2	3	4	5	6	7
2. Similarity of affiliate's recruitment practices to that of the parent's	1	2	3	4	5	6	7
3. Similarity of affiliate's recruitment practices to that of the typical practice of firms with which it competes in the local environment	1	2	3	4	5	6	7
4. Amount of training and development	1	2	3	4	5	6	7
5. Similarity of affiliate's training and development practices to that of the parent's	1	2	3	4	5	6	7
6. Similarity of affiliate's training and development to that of the typical practice of firms with which it competes in the local environment	1	2	3	4	5	6	7
7. Amount of promotions	1	2	3	4	5	6	7
8. Similarity of affiliate's promotion practices to that of the parent's	1	2	3	4	5	6	7
9. Similarity of affiliate's promotion practices to that of the typical practices of firms with which it competes in the local environment	1	2	3	4	5	6	7

10. Amount of external recruitment at non-entry levels	1	2	3	4	5	6	7
11. Similarity of affiliate's external recruitment practices at non-entry levels to that of the parent's	1	2	3	4	5	6	7
12. Similarity of affiliate's external recruitment practices at the non-entry level to that of the typical practice of firms with which it competes in the local environment	1	2	3	4	5	6	7
13. Amount of turnover	1	2	3	4	5	6	7
14. Similarity of affiliate's exit practices to that of the parent's	1	2	3	4	5	6	7
15. Similarity of affiliate's exit practices at the non-entry level to that of the typical practice of firms with which it competes in the local environment	1	2	3	4	5	6	7

**General Information**

1. Is your subsidiary a (circle one) (1) Joint venture (2) Wholly-owned subsidiary
2. Nationality of the partner/HQ?
3. Total number of subsidiary employees
4. Total number of managerial employees
5. Total number of non-managerial employees
6. Sales
7. Age of the subsidiary
8. Number of lawyers employed in HR
9. Strikes and Lockouts

Name: \_\_\_\_\_

Designation: \_\_\_\_\_

Company: \_\_\_\_\_

Parent/Partner Organization: \_\_\_\_\_

Comments: \_\_\_\_\_



**Appendix B**  
**Lisrel Notation**

**Y<sub>1</sub> = Human Resource Integration measure**

**Y<sub>2</sub> = Human Resource Responsiveness measure**

**Y<sub>3</sub> = Similarity of Managerial Career Systems to those of the Parent's measure**

**Y<sub>4</sub> = Similarity of Non-Managerial Career Systems to those of the Parent's measure**

**X<sub>1</sub> = Multinational's International Strategy measure**

**X<sub>2</sub> = Institutional Factors for Managerial Employees measure**

**X<sub>3</sub> = Institutional Factors for Non-Managerial Employees measure**

**$\eta_1$  = Human Resource Integration**

**$\eta_2$  = Human Resource Responsiveness**

**$\eta_3$  = Similarity of Managerial Career Systems to those of the Parent's**

**$\eta_4$  = Similarity of Non-Managerial Career Systems to those of the Parent's**

**$\xi_1$  = Multinational's International Strategy**

**$\xi_2$  = Institutional Factors for Managerial Employees**

**$\xi_3$  = Institutional Factors for Non-Managerial Employees**

**$\epsilon_i$  = measurement errors for  $\eta_s$ ,  $i= 1$  to  $4$**

**$\delta_i$  = measurement errors for  $\xi_s$ ,  $i= 1$  to  $3$**

**$\lambda_i$  = path coefficient from latent variables ( $\eta_s$  and  $\xi_s$ ) to the respective observed variables ( $Y_s$  and  $X_s$ )**

**$\beta_{ji}$  = path coefficient of arrow from  $\eta_i$  to  $\eta_j$**

**$\gamma_{ji}$  = path coefficient of arrow from  $\xi_i$  to  $\eta_j$**