

Modes of integration of human resource management practices in multinationals

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Purpose: This paper examines variations in the use of international integration mechanisms across individual human resource management (HRM) practices in MNCs.

Methodology: Drawing upon data from a sample of over 450 MNC subsidiaries located in Ireland and Spain and an ordinal regression methodology, several models were tested.

Findings: Our findings provide evidence that people, information and formalized-based mechanisms are positively related to the use of centralization-based integration processes. Our results also demonstrate that the use of personal-based integration mechanisms is uniform across the suite of individual HRM practices among those MNCs where an international HRM committee is present, while the deployment of expatriates does not prove to be particularly significant in achieving integration across the range of HRM practices examined in our model. Information- and formalisation-based mechanisms hold explanatory power in relation to performance appraisal systems and compensation practices.

Research Limitations: Broadening the scope of the analysis we offer here drawn from just two institutional environments to a broader set of locations may contribute to future research in this area. Further analysis using longitudinal and quantitative methodologies may also prove important in unearthing integration patterns in HRM domain areas.

Originality/value: This article offers a comprehensive analysis of the preferred modes of integration across HRM practices in MNC subsidiaries located in two different institutional environments. We reveal how modes of integration vary for different HR domain areas and we provide explanations for this variation.

Article classification: Research Paper

Keywords: International Human Resource Management; International Integration Mechanisms; Multinational Subsidiaries

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Introduction

As multinational corporations (MNCs) and their international subsidiaries have become increasingly important players in the global economy, interest in, and research on, the strategies and management practices of these firms has advanced apace. Within this literature, one significant line of enquiry relates to the capacity of the MNC to achieve international integration in its policies and practices (Kim *et al.*, 2003). Defined as the MNC response to the forces of globalization in all its dimensions - political, economic, social, cultural and competitive (Porter, 1986; Martinez and Jarillo, 1991; Bélanger *et al.*, 2013), and located within bigger debates on convergence versus divergence and standardisation versus localisation arising from the complex network of institutional influences which govern the MNC's capacity for action, international integration activities are focused on regulating the MNC activities in different geographic territories.

Referring specifically to the domain area of human resource management, international HRM researchers have, in relative terms, paid little attention to the mechanisms that foster the integration of MNCs activities. As Smale *et al.* (2012; p. 181) note "what is lacking, however, is systematic research that combines multiple mechanisms of global HRM integration and explanations behind their reportedly differential usage". Smale and colleagues' work constitute a calling to undertake a specific examination of how different integration mechanisms are used across the range of HRM practices encompassing employee reward, development and relations. Building on Kim *et al.*'s (2003) four way classification of modes of integration (centralization, formalization, information and people-based), and responding to the call by Smale *et al.*, we offer an analysis of the differentiated use of these integration modes across a suite of different HRM practices (pay and rewards, performance appraisal systems, training and development, employee involvement and industrial relations).

Smale *et al.* (2013) operationalized Kim *et al.*'s model to test the use of centralization-, people- and formalization-based integration modes across different HRM practices. However, their investigation did not explore information-based mechanisms and was conducted among a small sample size comprising 76 subsidiaries of European MNCs located in China. In seeking to build on this work, our main contribution is to offer a more comprehensive and holistic analysis of the preferred modes of integration of HRM practices in multinationals by (i) testing the four way taxonomy proposed by Kim *et al.* (2003) and (ii) broadening the scope of analysis using a highly representative sample of over 450 foreign-owned subsidiaries operating in two different institutional locations (Edwards *et al.*, 2013). We do so on the basis that the application of Kim *et al.*'s taxonomy of integration modes to the HR arena allows scholars to evaluate and compare their use within a single business function (Smale *et al.*, 2013). In addition, our work seeks to unearth the existence of a potential relationship between the centralization-based mode and the other three modes of integration, namely, people-, information- and formalization-based modes.

The remainder of the paper is structured as follows: firstly, we outline the main arguments inherent in the literature on international integration modes and we make the case for how insights from the 'integration modes' literature may be especially helpful to unpacking and understanding aspects of the institutionalisation of preferred approaches to HRM in MNCs operating in different locations. Arising from this, we advance three linked hypotheses on HR integration. Subsequently, we present the methodology, findings and conclusions.

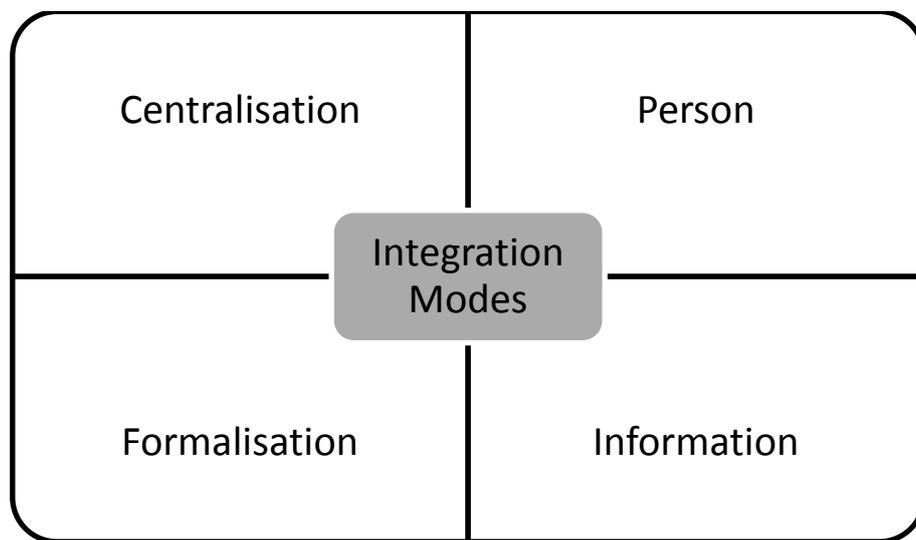
Theoretical Background and Hypotheses

Scholarly emphasis on the topic of MNC integration modes dates back to the late 1960s and the Aston School (Pugh *et al.*, 1969). Early international business research pointed to the deployment of particular modes of international integration across borders as a response to globalization forces (Cray, 1984; Porter, 1986; Martinez and Jarillo, 1991).

Specifically in the HR domain, the debate on international integration and local adaptation of practices has attracted considerable attention, particularly in recent years (cf. Gunnigle *et al.*, 2002; Pudelko and Harzing, 2007; Almond and Ferner, 2006; Ferner *et al.*, 2011; Mayrhofer *et al.*, 2011; Festing *et al.*, 2012; Bélanger *et al.*, 2013; Smale *et al.*, 2012; 2013). Viewed as an attempt by MNCs “to control the HRM policies and practices of their subsidiaries and to ensure coordination of the policies and practices across their subsidiaries” (Smale *et al.*, 2013, p. 232), a deal of past work on this front has been framed as a duality between global-local tensions in management practices (Edwards *et al.*, 2013; Parry *et al.*, 2008). For years, international researchers have typified the integration and local adaptation of practices as existing on opposite ends of a spectrum, arguing that MNCs will typically favour one of these alternative approaches to managing in different host locations. More recent contributions argue that integration and local adaptation are not necessarily mutually exclusive, and that there are scenarios where MNCs may simultaneously pursue both approaches, i.e. designedly seeking a degree of integration of HRM practices across borders on the one hand, coupled with a desire to differentiate and adapt to local requirements in order to acquire legitimacy in the local institutional environment and be seen to conform to the host locations on the other (Edwards *et al.*, 2013). Cray (1984) postulated that international integration occurs through two distinct processes, namely control and coordination. Control and coordination are therefore seen as the two primary undertakings of global integration (Cray, 1984; Martinez and Jarillo, 1991; Kim *et al.*, 2003). Importantly, these two processes are rather different. Control is viewed as the process of regulating and defining MNC activities in order to align them with HQ’s expectations. Coordination, however, refers to the means by which control is achieved. Specifically, coordination is concerned with the establishment of suitable linkages among and between internationally dispersed units within the MNC. As Kim *et al.* (2003:

329) note, “global integration becomes possible only through the use of organizational mechanisms for coordination and control”. Building on significant earlier contributions from the extant literature (e.g. Child, 1972; Edstrom and Galbraith, 1977; Ghoshal and Nohria, 1989; Martinez and Jarillo, 1991), Kim *et al.* (2003) advanced a four-way classification of international integration used by MNCs, comprising centralization, formalization, people and information modes each of which we now discuss in turn (see Figure 1).

Figure 1: Integration Modes



Source: Kim *et al.*, 2003.

Firstly, MNCs integrate their units through ‘centralizing decision-making authority’ (Kim *et al.*, 2003; p. 330). Previously characterised by Child (1972: 163) as a ‘strategy of control’, it operates directly from HQ or from alternative high levels within the MNC hierarchy (e.g. regional HQ) where a more complete and global vision of the needs and goals of the business should exist (Kim *et al.*, 2003). In an organisation with a high level of centralisation, decision-making is placed at HQ. Second, people-based integration refers to those modes involving international teams, international committees, the deployment of expatriates from the parent office to other national units, and they broadly constitute what has been traditionally termed ‘personal control’ mechanisms. Such personal control is more likely to be used when information needs to be transmitted face to face since this integration mode has

proved effective in such situations (Kim *et al.*, 2003). It has been argued that an organisation which is characterised by high people-based integration modes will report a greater sharing of values, mission, vision and norms and possibly, may leverage this approach to integration in the securing and building of trust among employees (Gupta and Govindarajan, 2000; Kim *et al.*, 2003). Third, formalization-based integration is typically related to formal standardized procedures, policies and manuals detailing codified rules for application across national boundaries. An organisation within which formalization-based modes are extensively deployed will report higher levels of standardization of procedures and bureaucracy with the result that subsidiaries might encounter some limitations on their scope for decision-making (Child, 1972; Kim *et al.*, 2003). Finally, information-based integration concerns “the international flow of information through impersonal communication systems such as databases, electronic mail, internet, intranet and electronic data interchanges” (p. 330). This international integration mode is seen as particularly efficient when there is a need to communicate knowledge or provide information quickly. Information-based modes allow managers to rapidly transfer and analyse large volumes of information. An MNC in which information-based integration modes are effectively established will typically be characterised by greater levels of impersonal communication through which knowledge is transmitted and concomitantly, it will facilitate encountering points for employees sharing common goals and interests (Hanssen *et al.*, 1999; Kim *et al.*, 2003).

International integration mechanisms: centralisation

Building on the basic insights from the integration modes literature introduced above, we now turn specifically to the literature on integration mechanisms in the domain area of HRM. In so doing, we seek to build on the international integration modes categorised by Kim *et al.* (2003), since international integration is a matter concerning the business as a whole, as well as having functional specific manifestations in each management domain area.

Centralization-based mechanisms aim to place the locus of decision-making at the top levels in the chain of the command in MNCs, normally at HQ, divisional HQ or regional HQ level (Smale *et al.*, 2013). Such mechanisms foster the integration of HRM since enhanced centralization usually affords subsidiaries less scope for local adaptation and translation (Scullion and Starkey, 2000; Ferner *et al.*, 2011; Smale *et al.*, 2013). In this instance, Ferner *et al.* (2011) find evidence of a centralization approach in MNCs where HRM practices are set at HQ as opposed to a decentralization approach through which HQ afford subsidiaries full scope to formulate their HRM practices locally. Centralization-based mechanisms may be seen to correspond with what has been referred to as a ‘strategy of control’ (Child, 1972; Ferner *et al.*, 2011; Smale *et al.*, 2013) and hence, have customarily been related to situations where decision-making over HRM practice emanates from HQ rather than from the MNC subsidiary. The literature further illustrates that MNCs might take intermediate approaches within the centralization and decentralization spectrum. In such cases, HQ might set certain guidelines for the development of HRM practices while at the same time, allowing subsidiaries a degree of autonomy for local adaption within the broader parameters specified which must be adhered to. The extent of centralization, therefore, relies on the degree of international integration of HRM practices to which a particular MNC aspires (Ferner *et al.*, 2011; Smale *et al.*, 2013; Edwards *et al.*, 2013).

International integration through centralization is configured at a strategic, corporate level (Child, 1972; Kim *et al.*, 2003; Smale *et al.*, 2013) and consequently, the use of centralization-based mechanisms may be positively related to the use of formalization-, personal- and information-based mechanisms on the basis that a centralization approach will be likely to be operationalized by the appropriate mechanisms that ensure control and coordination over the MNC activity. If HQ decides to take a centralization-based approach

within the HR function, it seems reasonable to expect a greater usage of people-, information- and formalization-based mechanisms arising from that decision. Conversely, if subsidiaries are afforded a high level of decision-making discretion in regard to HRM, the MNC may be less inclined to make use of the broader suite of international integration mechanisms. Based on these contributions, our first hypothesis reads as follows:

H1: The use of people-, information- and formalization-based integration mechanisms for HRM practices will be positively related to the employment of centralization-based mechanisms within the HR function.

‘People’, ‘formalisation’ and ‘information-based’ mechanisms and their variation across HRM practices

People-based integration mechanisms for HRM practices have been profiled in a number of studies (Marginson *et al.*, 1995; Harzing, 2001; Ferner *et al.*, 2011; Belizón *et al.*, 2013; Smale *et al.*, 2013). In the nineties, case study-based research found that MNCs were establishing these committees acting as policy making agents for the formulation and integration of HRM practices (Marginson *et al.*, 1995). Recent quantitative research corroborated this, discovering that over half of MNCs operating in the UK and Spain have established an HRM international committee (Ferner *et al.*, 2011; Belizón *et al.*, 2013). This personal-based integration mechanism provides MNCs with a platform at which corporate HRM and HR managers from their foreign units get-together in order to formulate and disseminate policy across borders (Ferner *et al.*, 2011). In addition, research has identified the connection between international integration, control and the use of expatriates (Harzing, 2001; Minbaeva and Michailova, 2004) with their being evidence that control is extensively exerted through expatriation (Harzing, 1999; Bonache and Dickmann, 2008). Expatriates not only provide HQ with the opportunity to transmit the corporate mission and values face-to-face but also they constitute a vehicle for controlling the subsidiary activity and act as critical

nodes in a MNCs network of activities (Edstrom and Galbraith, 1977; Morley and Heraty, 2004). In recent years several scholars have also emphasised the use of internal networks and other informal people-based mechanisms, facilitating not only the integration of HRM practices but also the transfer of knowledge, know-how and (best) practices across units (Sparrow *et al.*, 2004; Tregaskis *et al.*, 2005; Collings *et al.*, 2008; Evans *et al.*, 2011).

In relation to formalization-based mechanisms for HRM practices, Harzing and Sorge (2003) observe that these are more impersonal and bureaucratic than other integration mechanisms incorporating, as they do, standardized procedures and rules for the transmission of information from subsidiaries to and from global HQ (Child, 1972; Sparrow *et al.*, 2004; Ferner *et al.*, 2011). The direct reporting of HRM issues from subsidiaries to HQ has been found to exist in recent studies on international integration of HRM practices (Ferner *et al.*, 2011; Belizón *et al.*, 2013). Through such reporting, HQ establishes a constant relationship by which HQ policy is transferred, checked and implemented, or indeed corrected as appropriate. Smale *et al.* (2013: 235) note that formalization-based mechanisms are “a way of realizing behavioural and process control over how subsidiaries carry out appraisals”. In a similar vein, Harzing (1999) refers to formalized-based approaches as channels for information processing across the MNCs structure. In this instance, HR shared services centres (HRSSC) constitute a formalisation-based mechanism by which behavioural and bureaucratic processes are established. HR shared service centres which provide HR services to subsidiaries through treating them as internal customers, has been identified as an efficient integration mechanism within the HR function. The provision of HR services globally allows MNCs to take advantage of economies of scale in the international integration of HRM practices (Wächter *et al.*, 2006).

Finally, information-based mechanisms within the HRM arena have been the object of several studies (Hannon *et al.*, 1996; Sparrow *et al.*, 2004; Ferner *et al.*, 2011; Belizón *et al.*,

2013) and encapsulate databases, employee intranet and other types of information systems for sharing data. Scholars identify HRIS as the most important information-based mechanism for international integration (e.g. use of IT like PeopleSoft or SAP) due to the possibility of standardising information collection and exchange among subsidiaries (cf. Hannon *et al.*, 1996; Haines and Petit, 1997; Sparrow *et al.*, 2004). In terms of its role in integration, HRIS has been studied in two ways. In Kim *et al.*'s (2003) analysis, HRIS is referred to as an information-based mechanism. Conversely, Smale *et al.* (2003) viewed HRIS as a formalization-based mechanism, arguing that it enables the greater prescription of HRM practices through integrated electronic systems. For our purpose here, HRIS will be treated as part of the information-based mechanisms spectrum since these systems are largely focused on the exchange of information.

Variation of their usage across HRM practices

An important question refers to how MNCs might deploy these different international integration mechanisms across individual HRM practices and whether their use might vary in different HRM areas. For example, are these international mechanisms used more extensively to foster greater integration of compensation systems than training and development practices? A handful of authors have provided evidence to suggest that some individual HRM practices are more prone to international integration, while others are more likely to be more context bound and therefore more locally adapted (Rosenzweig and Nohria, 1994; Morley *et al.*, 1996; Lu and Björkman, 1997; Martin and Beaumont, 1999; Tayeb, 1998; Ferner *et al.*, 2011; Smale *et al.*, 2013). Studies suggest that pay and benefit systems and performance appraisal systems, along with broader institutionalised aspects of the employment relations system, appear more integrated than the other HRM practices and thus local management experiences less decision making autonomy over these matters (Rosenzweig and Nohria, 1994; Martin and Beaumont 1999; Tayeb, 1998; Almond *et al.*, 2005). Equally, Lu and

Björkman (1997) found that financial compensation, performance assessment and promotion were the most integrated within the MNC, while Ferner *et al.* (2011) found that issues related to performance management such as the performance appraisal systems, variable pay systems or succession plans are generally more likely to be integrated internationally and therefore, controlled by HQ, while training and development, employee involvement and industrial relations practices are normally adapted locally in order to conform to the host institutional environment. The logic behind the international integration of certain HR practices is governed by the extent to which they are perceived as having a greater impact on corporate performance and turnover.

Smale *et al.* (2013) found no significant differences in the use of people-based mechanisms across HRM practices. However, other scholarship on international HRM has identified the deployment of person-based mechanisms in differentiated ways for particular HRM practices. Thus, there is evidence suggesting that international HR committees are employed to bring together HR managers from different countries in order to develop, disseminate and monitor HR policies (Marginson *et al.*, 1995; Edwards *et al.*, 1999; Ferner *et al.*, 2011; Belizón *et al.*, 2013). Belizón *et al.* (2013) found a strong positive relationship between the use of an international HRM committee and the centralisation of all HRM practices. As scholars have emphasised, personal and direct control is often exercised in an effort at centralising practices (Child, 1972, 1973; Edström and Galbraith, 1977). This especially appears the case with international HR committees and the use of expatriates, the later focused on direct surveillance of different aspects of the functioning of the subsidiary (Edström and Galbraith, 1977). On the other hand, formalisation and information based mechanisms, such as direct data reporting, a functioning shared services centre and the use of HRIS have been identified as among those types of control that while indirect in nature aim to record, report and provide

services and surveillance when needed (Edström and Galbraith, 1977; Harzing and Sorge, 2003). In line with these contributions, our second of hypothesis, therefore, is as follows:

H2: Person-based mechanisms aimed at achieving centralisation and control will be employed more uniformly across all HRM practices than formalisation and information based mechanisms.

Smale *et al.* (2013) did not examine information-based mechanisms in their study. Lengnick-Hall and Moritz (2003: 365) note that “human resource information systems (HRIS) increase administrative efficiency and produce reports that have the potential to improve decision making”. Included in the broad area of eHRM, HRIS encompasses the use of technology that is designed and implemented to foster the goals of the HR function (Farndale *et al.*, 2009). In order to unearth possible variations in the use of HRM integration mechanisms across HRM practices, it is important to explicate the role of HRIS within the HR function. Beside anecdotal reports by companies or the CIPD, prominent scholars have shown evidence to argue that HRIS is extensively used for the storage of employee details, for the use of pay and compensation systems including pay-related information records and for training and development (Ball, 2001; Lengnick-Hall and Moritz, 2003; Strohmeier, 2007). HRIS seem to be less likely used in other soft HR domains such as recruitment or industrial relations (Ball, 2001). This work has also highlighted the deployment of information-based mechanisms as an international platform to manage performance appraisal and compensation systems (Lengnick-Hall and Moritz, 2003; Strohmeier, 2007; Parry and Tyson, 2011). Drawing on the argument around different approaches governing the implementation of “hard” and “soft” aspects of HRM, our final hypothesis therefore reads:

H3: MNCs will be more inclined to use information-based mechanisms for the integration of hard HRM practices in the areas of compensation and performance appraisal systems than for the integration of soft HR practices in the areas of training and development,

organizational learning, succession planning, employee involvement and employee representation.

Methods

In order to test our hypotheses, we use data from a large scale survey on HRM practices in MNCs undertaken in Spain and Ireland, which formed part of the INTREPID (Investigation of Transnationals' Employment Practices: an International Database) project¹. The study defined MNCs as follows: foreign-owned firms that employed at least 500 employees worldwide and at least 100 in the host country. These criteria were used in order to guarantee a critical mass for the viability of the study. In the first instance, compiling a precise listing of the population of MNCs in both countries was needed. The resulting database comprised 894 foreign MNCs operating in Spain and 414 foreign-owned MNCs operating in Ireland. In the Spanish case, the entire known population was invited to participate in the study. The response rate was 27.1% (242 MNCs) and data was collected through face-to-face structured questionnaires. In the Irish case, due to a large presence of US MNCs in the population, the Irish team carried out a sampling process by stratification in order to ensure the representativeness of the sample. Thus, the sample was stratified by home country (Irish, UK, US, EU, Rest of World), sector of operations (services, manufacturing) and employment size of the Irish operations (100-199 employees, 200-499 employees, greater than 500 employees). The sample selected was contacted by phone. The response rate was 60% (210 MNCs). Face-to-face structured questionnaires were also administered by a combination of Irish research team members and specialist personnel from *the Economic and Social Research Institute* (Ireland's leading independent research agency in the social sciences). Stratification of the Spanish sample was not needed. As Edwards *et al.* (2013: 561) note the Spanish research team "judged the population to be sufficiently large for it to be highly likely that the companies that took part in the survey contained reasonably high numbers in each of the categories". In both cases, we checked for

non-response bias by analysing the participant firms against two criteria (country of origin and sector) collated from the population development stage. Our analysis of the respondents from our sample, against the general population, showed no significant differences and close alignment with the MNE population. Respondents were the most senior HR practitioner at subsidiary level, namely, the HR manager/director in most cases.

The questionnaire was designed to investigate the key HR policies and practices used by MNCs in their subsidiaries abroad, as well as the level of centralisation over pay and performance, training and development, industrial relations, employee involvement and communication. The questionnaire drew extensively on dichotomous questions, although there were a small number of Likert-scales used to measure the extent of centralisation across HRM practices. This article uses only data related to the use of integration mechanisms of the HR function across individual HRM practices. For more detailed information on the research design utilised in the overall INTREPID study, scholars may consult Edwards *et al.* (2013), while context specific information relating to the national studies in Ireland and Spain can be found, respectively in the work of McDonnell *et al.* (2007) and Lavelle *et al.* (2009) on Ireland and Quintanilla *et al.* (2010) on Spain.

Measures: Dependent variables

Given our focus on investigating the differential use of integration mechanisms across individual HRM practices, we build a statistical model per each individual HRM practice: (i) establishing pay levels relative to market comparators; (ii) performance appraisals for managers; (iii) training and development; (iv) succession planning; (v) employee involvement; and (vi) engagement with trade unions (See Table 1). The dependent variables are the extent of centralization over these individual HRM practices, which follow a standard Likert-scale (1-5) and its three main anchor points were as follows:

- (1) the Spanish/Irish operations are fully centralized by HQ (must implement policy set by a higher level such as corporate or regional HQ).
- (2) ...
- (3) the Spanish/Irish operations have some scope for local adaptation within a given framework (can develop policy within the guidelines set by HQ).
- (4) ...
- (5) The Spanish/Irish operations are not centralized (local managers can set their own policy).

Table 1: Dependent variables (5-point Likert scales)

The extent of centralisation over...	establishing pay levels relative to market comparators
	performance appraisals for managers
	training and development
	succession planning
	employee involvement
	engagement with trade unions

Measures: Independent variables

Two items were used to measure *people-based integration mechanisms* for HRM: (i) the use of expatriates from HQ within the subsidiary (1= yes; 0=no) and (ii) the existence of an international HR committee bringing together HR managers from the subsidiaries to develop HRM practices that apply across countries (1 = yes, 0 = no).

The *information-based integration mechanism* was measured using a single item: the utilization of an international IT system for HR issues that provided a platform for the exchange of information and data relating to the firms international workforce such as PeopleSoft or SAP HR (1=yes; 0=no).

Formalized-based integration mechanisms were also represented in the survey. The items used in this case focused on (i) the existence of regular and frequent HR data reporting from subsidiary to HQ. An accumulated index was created encapsulating 9 items measured through binary questions (1 = yes, 0 = no). The HR issues included were the following: (1) managerial pay packages; (2) management career progression; (3) overall labour costs; (4) numbers employed (headcount); (5) staff turnover; (6) absenteeism; (7) productivity; (8) workforce composition by diversity (e.g. gender, ethnicity, disability, etc.); and (9) employee attitude and satisfaction. Finally, (ii) the presence of a global shared services centre for HR issues was measured through a dichotomous variable (1 = yes, 0 = no).

Table 2: Independent variables

People-based	<p>The use of expatriates from HQ (binary variable)</p> <p>The presence of an international HR committee (binary variable)</p>
Information-based	<p>Utilization of an international IT system for HR issues such as People soft or SAP HR (binary variable)</p>
Formalized-based	<ul style="list-style-type: none"> • Accumulated index encapsulating 9 binary items: <ul style="list-style-type: none"> - managerial pay packages - management career progression - overall labour costs - numbers employed (headcount) - staff turnover - absenteeism - productivity - workforce composition by diversity (e.g. gender, ethnicity, disability etc.) - employee attitude and satisfaction • the presence of a global shared services centre for HR (binary variable).

To ensure the robustness of our statistical model and consistency with previous work on our topic, we have included several control variables based on the relevant literature. First, country of origin is measured through a binary item (1= US; 0= non-US) (Ferner *et al.*, 2011). Second, we control for the sector of operations with a dichotomous question (1 = manufacturing, 2 = services) (Fenton-O’Creevy *et al.*, 2008; Ferner *et al.*, 2011). Third, the size of the subsidiary is measured by number of employees (1 = 100-999; 2 = 1,000-4,999; 3 = more than 5,000) and the age of the subsidiary measured as a continuous variable (Garnier, 1982; Fenton-O’Creevy *et al.*, 2008). Fourth, mode of entry as a binary item (1 = merger or acquisition, 2 = greenfield) (Gunnigle *et al.*, 2009). Finally, we include a variable measuring the host country (1 = Ireland; 2 = Spain) (Edwards *et al.*, 2013).

Sample and descriptive data

Our sample comprises of 452 foreign-owned subsidiaries, 242 in Spain and 210 in Ireland. In relation to the country of origin, some 42% of MNCs are from the US. In terms of sector of operation, 53% are located in the services while 47% are manufacturing. Regarding the size of the subsidiary, 68% of the subsidiaries have between 100 and 999 employees, 25% have between 1,000 and 4,999 employees and 4% have more than 5,000.¹

Descriptive data on the use of the international integration mechanisms for HRM are presented here. Table 1 shows that the formalized-based mechanism (direct reporting from subsidiaries to HQ on HR issues) is the most popular mechanism within the MNCs object of study (92.3%) while only some 36.9% of the sample uses the services provided by a global HR shared services centre. Overall, personal-based mechanisms for HRM constitute the next most popular group of integration mechanisms, chief among them being the presence of an international HRM committee, policy-maker and coordinator of HRM practices across countries (65.9%). Some 56.9% of the subsidiaries reported the presence of expatriates.

¹ 3% of subsidiaries reported missing values for the number of employees.

INSERT TABLE 3 ABOUT HERE

Information-based mechanisms for HRM are represented here by the employment of a HR information system as a platform for the exchange of HRM information and contents. Respondents of some 58.2% subsidiaries confirmed the use of HRIS when asked for the incidence of such mechanism. Overall, most HRM practices reported means under 3.0 (see table 2). This suggests that HRM practices included in this study reported averages of medium and low centralizations levels. Within the medium levels of centralization we find performance appraisal and succession planning. Within low levels of corporate centralization the output points towards the establishment of pay levels in the subsidiary in relation to the local market, training and development policy, employee involvement practice and trade union engagement.

INSERT TABLE 4 ABOUT HERE

Results

Firstly, we tested for correlations and collinearity tolerance for all the variables and the resulted outputs were all within normal limits (Hair et al. 2010). The highest correlation obtained among the independent variables was 0.334 while the highest VIF was 1.187. Second, given the ordinal nature of our dependent variables, six ordinal regressions were run for each of the HRM practices (Hair *et al.*, 2010).

Turning to our hypotheses, our dependent variable is the extent of centralization for the different HRM practices, representing the centralization-based mechanisms employed by the MNC. Centralization-based mechanisms for HRM proved to be significantly related to the

use of other people-based mechanisms as well as highly associated with the employment of information-based mechanisms (HRIS) and formalization-based mechanisms (direct data reporting on HR issues from subsidiary to HQ and HRSSCs). Hence, overall, our *H1* is supported. Table 3 reports the output of the six ordinal regressions. The results reveal that people-based mechanisms are employed most uniformly across the different HRM practices in the case of the international HRM committee. The findings do not report significant relationships between the use of expatriates and centralisation across HRM practices. Therefore, *H2* is partially supported.

INSERT TABLE 5 ABOUT HERE

Our findings provide support for the argument that MNCs will be more inclined to use information-based mechanisms for the international integration of compensation and performance appraisal systems than for the integration of the rest of HRM practices. Thus, *H3* is supported. Additionally, our model provides some useful findings on formalisation-based mechanisms that might offer a line of enquiry for future research. In particular, the use of direct data reporting from subsidiary to HQ appears related to the centralisation of all HRM practices and the use of HRSSCs is found to hold explanatory power in accounting for the centralisation of training and development practices.

Discussion and Conclusions

The ever-increasing complexity and uncertainty within which MNCs operate creates a unique set of organizational, co-ordination and managerial issues for the managers of MNCs. Not least of these is the management of employees on a global scale. The discussion on preferred approaches to HRM integration and the mechanisms by which it may be achieved goes straight to the heart of the debate about how MNCs operating in a variety of national

environments deal with a “bewildering variety of cultural and institutional specificities that make managing in a multinational context especially complex” (Morley and Collings, 2003, p. 489). In this paper we have presented a comprehensive analysis of the differential use of international mechanisms for the integration of management practices across a suite of HRM practices among MNC subsidiaries located in Spain and Ireland. Smale *et al.* (2013) opened up an important research avenue on the differential use of three sets of international integration mechanisms in the HRM domain, a line of enquiry which we have sought to develop further in this paper, most especially around the differential use of information-based mechanisms and the relationship between centralisation and integration mechanisms which remained unanswered heretofore (Smale *et al.*, 2013). Against this backdrop, we have sought to provide a comprehensive analysis of preferred approaches to integration among a representative sample of over 450 foreign-owned subsidiaries operating in two different locations. Our study of foreign-owned MNCs in Ireland and Spain demonstrates that the use of people-, information- and formalization-based mechanisms is positively related to the employment of centralization-based mechanisms. Our conclusions suggest that centralization-based mechanisms should perhaps be viewed at a strategic or corporate level (Child, 1972), in that centralization as a preferred approach may trigger the use of the other integration mechanisms for HRM practices. Ferner *et al.* (2011) have previously hinted at the potential existence of a causal relationship between centralization and the use of international integration mechanisms in the HRM domain area, in which the pursuit of centralization as the overarching preferred approach encourages the employment of such mechanisms. Our analysis suggests that this could be the case. However, since regression analysis does not measure causality (Hair *et al.* 2010) further research is needed to deepen knowledge on causality.

Our empirical results support the notion that people-based integration mechanisms in the form of international HRM committees are used uniformly to foster the international integration of the different HRM practices. As Ferner *et al.* (2011) argue the main purpose of the international HRM committee is to act as a policy-making agent for the formulation and dissemination of HRM policies across borders. International HRM committees are the venue at which HRM policies are created, discussed and integrated across subsidiaries. Future research might focus on different aspects in relation to the use of international HRM committees such as the extent of the attendance and participation of each subsidiary, frequency of the meetings and other implications for HR managers at subsidiary level. Our findings further suggest that the use of expatriates is not related to high levels of international integration in HRM. A possible explanation behind these findings is that MNCs are increasingly employing internal networks and informal people-based mechanisms in their integration of practices (Sparrow *et al.*, 2004; Tregaskis *et al.*, 2005; Collings *et al.*, 2007; Evans *et al.*, 2011) and these may have become a substitute for the deployment of conventional expatriate executives in some cases. An alternative rationale to explain why the use of expatriates might not be related to centralization is the fact that the presence of expatriates in European and American MNCs across the globe is normally lower than the presence of expatriates in firms of other nationalities such as, for example, in Japanese firms (Tan and Mahoney, 2006; Almond and Ferner, 2006). Our sample here is primarily comprised of European and American owned firms. Previously, Harzing (2001) argued that the cost entailed in expatriation, along with the comparatively lower cost of non-person-based control and integration mechanisms, could explain a decrease in the deployment of expatriates to integrate managerial practices internationally. In addition, she noted that in some cases centralized decision-making at HQ as a *modus operandi* could substitute the use of expatriation.

As expected information-based mechanisms seem to be particularly associated with the international integration of performance appraisal systems and compensation practices and appear much less common in the integration of training and development, organizational learning, succession planning, employee involvement and employee representation. This is partially aligned to the work of Strohmeier (2007) who found that the use of HRIS allow for scope to build databases and information sharing platforms where compensation and performance appraisal systems are established. Similarly, Ball (2001) highlights the more extensive use of HRIS for hard HRM practices than for soft HRM practices in order to serve as a means of analysis and as an aid to decision-making. This appeared most sophisticated in the case of performance appraisal systems.

In relation to formalisation-based mechanisms, direct reporting on HR issues from the subsidiary to HQ proves to be significant in the process of international integration used by MNC subsidiaries across all HRM practices explored. As Belizón *et al.* (2013) pointed out in relation to the direct reporting on HR matters from subsidiary to HQ, oftentimes HQ demonstrates a desire to be informed about HR activity on a regular and on-going basis, regardless of the level of control exerted over the subsidiary. The usage of HR shared services is solely found to be significant in explaining the level of international integration of training and development. Recently, some scholars have warned that the use of a HR shared service might not be necessarily associated with the extent of integration of HRM practices since HR shared services generally operate following a ‘business within a business’ approach, which is not necessarily bound to broader corporate control (Meijerick and Bondarouk, 2013: 489). Taking into account our findings and recent contributions on the use of HR shared service centres, it is plausible to suggest that this mechanism might be more

inclined to integrate and transfer intellectual capital and wider knowledge than specific operational HR practices.

Limitations

A number of limitations should be acknowledged in the empirical analysis that we offer here. First, our study does not include selection practices. Additional analysis should be carried out to explore this in detail. Second, we believe that the use of a longitudinal and qualitative methodology would be helpful in providing more nuanced features of the integration mechanisms at play in the HR function. There is little doubt that additional perspectives on the use of such mechanisms for the integration and knowledge transfer of HRM would be beneficial. Third, a wider array of research contexts would assist in further explicating the impact of national and firm level drivers as sources of variation in preferred approaches. Fourth, since our respondents were subsidiary level HR Directors/Managers, we are aware that these results are limited to the 'subsidiary perception'. Thus, dyadic studies covering both subsidiaries and HQ responses would likely generate a more holistic overview of the utilization of integration mechanisms of the HR function from the perspective of both stakeholders. Finally, the questionnaire was administered only to a single respondent in each subsidiary. This approach can, on occasion, lead to common method variance (CMV) which is caused by single source bias. However, arising from *Chang et al. (2010)*, we believe CMV is not likely to be problematic here because of the use of different scales for some variables and the presence of a high number of variables measuring the existence of international HRM mechanisms which are not related to personal perceptions.

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Table 3: Employment of international integration mechanisms for HRM²

International Integration mechanisms for HRM	Yes	No
Expatriates from HQ	56.9%	39.6%
International HRM committee	65.9%	33.8%
HRIS	58.2%	40.3%
Data reporting from subsidiary to HQ on HR issues	92.3%	7.7%
HR shared service centre	36.9%	62.8%

² Percentages are calculated based on the total sample, that is, 452 subsidiaries. However, some subsidiaries reported missing values.

Table 4: Extent of centralization (mean) across HRM practices (1-5 Likert Scale)

HRM Practices	N	Centralization	Std. Deviation
Pay levels	438	2.24	1.25
Performance Appraisal Managers	402	2.89	1.65
Training and Development	448	1.84	1.01
Succession Planning	275	2.54	1.20
Employee Involvement	422	1.50	0.86
Employee Representation	282	1.94	1.31

(*) LOG: Large Occupational Group

Table 5: Ordinal Regressions. Centralization over the different HRM practices

IV/DV	<u>Centralization over pay levels</u>	<u>Centralization over performance appraisal systems for managers</u>	<u>Centralization over training and development</u>	<u>Centralization over succession planning</u>	<u>Centralization over employee involvement</u>	<u>Centralization over union engagement</u>
Expatriates from HQ	<u>0.042</u>	<u>0.029</u>	<u>-0.046</u>	<u>-0.198</u>	<u>0.084</u>	<u>-0.385</u>
International HRM committee	<u>-0.084</u>	<u>-0.692***</u>	<u>-0.519***</u>	<u>-0.670**</u>	<u>-0.592**</u>	<u>-0.040</u>
HR shared service centre	<u>-0.354</u>	<u>-0.212</u>	<u>-0.421***</u>	<u>-0.337</u>	<u>-0.162</u>	<u>0.144</u>
HRIS	<u>-0.450**</u>	<u>-0.634***</u>	<u>-0.197</u>	<u>-0.144</u>	<u>-0.217</u>	<u>-0.096</u>
Data reporting on HR issues	<u>0.168***</u>	<u>0.168***</u>	<u>0.166***</u>	<u>0.263***</u>	<u>0.186***</u>	<u>0.221***</u>
Country of origin (Ref. non-US)	<u>-0.593***</u>	<u>-0.422*</u>	<u>-0.406*</u>	<u>0.016</u>	<u>0.004</u>	<u>-1.010***</u>
Host Country (Ref. Ireland)						
Subsidiary Size (Ref. Small)	<u>0.109</u>	<u>-0.442</u>	<u>0.173</u>	<u>-0.338</u>	<u>0.038</u>	<u>0.136</u>
Medium						
Large	<u>0.066</u>	<u>0.412</u>	<u>0.079</u>	<u>-0.534</u>	<u>-0.286</u>	<u>-0.324</u>
Age	<u>0.099</u>	<u>0.309</u>	<u>0.175</u>	<u>-1.087**</u>	<u>-0.409</u>	<u>-0.135</u>
Sector (Ref. Services)	<u>0.002</u>	<u>0.004</u>	<u>0.005</u>	<u>0.003</u>	<u>0.005</u>	<u>0.009</u>
Mode of Entry	<u>-0.167</u>	<u>0.012</u>	<u>-0.629***</u>	<u>0.409</u>	<u>0.321</u>	<u>-0.121</u>
Chi-Square	<u>-0.014</u>	<u>0.057</u>	<u>-0.027</u>	<u>-0.196</u>	<u>-0.225</u>	<u>0.125</u>
Negelkerke	<u>67.129***</u>	<u>77.259***</u>	<u>74.685***</u>	<u>57.440***</u>	<u>57.440***</u>	<u>53.561***</u>
N	<u>0.163</u>	<u>0.200</u>	<u>0.184</u>	<u>0.219</u>	<u>0.219</u>	<u>0.189</u>
	<u>401</u>	<u>367</u>	<u>408</u>	<u>246</u>	<u>246</u>	<u>282</u>

Notes: N is reduced because of missing values on some variables.

The reference categories are in brackets.

***, ** indicate significance at the 1% and 5% levels respectively.

¹ INTREPID (Investigation of Transnationals' Employment Practices: an International Database) comprises a network of international scholars involved in parallel surveys of employment practices in multinational companies (MNCs) across different national contexts. These surveys were initially conducted in Canada, Ireland, Spain and the UK and were the most representative investigations of their kind in these countries. Subsequent surveys were conducted in Argentina, Australia, Belgium, Denmark, Mexico and Norway. For a detailed overview of the methodology employed see McDonnell et al (2007) and Lavelle et al (2009) on Ireland and Quintanilla et al (2010) on Spain.